

**UNITIL ENERGY SYSTEMS, INC.**

**DIRECT TESTIMONY OF  
GEORGE E. LONG, JR.**

**New Hampshire Public Utilities Commission**

**Docket No. DE 16-384**

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1 **I. INTRODUCTION**

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

3 A. My name is George E. Long, Jr. My business address is 6 Liberty Lane West,  
4 Hampton, New Hampshire 03842.

5 **Q. For whom do you work and in what capacity?**

6 A. I am the Vice President of Administration for Unitil Service Corp. (“Unitil  
7 Service”), which provides centralized management and administrative services to  
8 each of Unitil Corporation’s affiliates (the “Unitil Companies”). My primary  
9 responsibilities are in the areas of Human Resources and Administration.

10 **Q. Please describe your business and educational background.**

11 A. I earned a Bachelor of Science degree from Rensselaer Polytechnic Institute with  
12 a major in Management and a minor in Economics. I have managed Human  
13 Resources functions since 1982, and have done so for the last 22 years at Unitil  
14 Service.

15 **Q. Have you previously testified before the New Hampshire Public Utilities  
16 Commission (“the Commission”) or other regulatory agencies on behalf of  
17 the Unitil Companies?**

18 A. Yes, I testified before the Commission in NHPUC Docket No. DE 03-238, Unitil  
19 Energy Systems, Inc. ("Unitil Energy" or the "Company") 2003 Petition for  
20 Deferral of Post-retirement Benefits Other than Pension (“PBOP”) and in NHPUC  
21 Docket Nos. DE 05-178 and DE 10-055, Unitil Energy’s last two base rate cases.

1 **II. PURPOSE OF TESTIMONY**

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

3 A. The purpose of my testimony is to: (a) provide an overview of Unitol Energy's  
4 compensation and benefit programs; and (b) to sponsor the pro forma adjustments  
5 made to the following items of O&M Expense:

- 6 • Payroll and Related Taxes
- 7 • Medical and Dental Insurances
- 8 • Pension, Post-retirement Benefits Other than Pension ("PBOP"), and  
9 401(k) Expense

10 **III. COMPENSATION PROGRAM**

11 **Q. Please explain the Unitol Companies' salary policy.**

12 A. The Unitol Companies' policy is to compensate employees at the median of the  
13 marketplace for base pay and total cash compensation.

14 **Q. Did Unitol Energy perform a compensation study to justify the level of its  
15 salaries and wages?**

16 A. Yes, Unitol Service performed a compensation study on behalf of the Unitol  
17 Companies in 2014. The compensation study was developed with the assistance  
18 of Towers Watson, an internationally recognized consulting firm in the area of  
19 employment compensation. The study of the Unitol Companies' salaries and  
20 benefits was undertaken for the express purpose of comparing them to external  
21 markets. Towers Watson assisted in: a) reviewing competitiveness of base

1 salaries and salary ranges; b) reviewing and recommending an appropriate and  
2 competitive cash incentive plan; c) recommending changes to the executive plans;  
3 and d) evaluating and recommending changes to all of the non-cash employee  
4 benefits 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  
21 (“SEC”) in order to double-check the competitiveness of salaries for certain  
22 positions.

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

3 A. Yes. Towers Watson recommended that the Unitil Companies continue its policy  
4 of paying at 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 Companies' pay structure?**

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

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

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

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

1 A. Union wage rates are established periodically through the collective bargaining  
2 process. Typically, the Company obtains contracts from our neighboring utilities  
3 in New England and calculates competitive wage rates for each union position  
4 which the Company then uses during the negotiation process. This helps set fair  
5 and equitable wage rate goals in the collective bargaining process to ensure that  
6 our union wages attract and retain qualified union employees. In 2013, Unitil  
7 Service performed a survey of hourly wage rates for the Unitil companies  
8 compared to these other utilities. The Company's union wages approximate the  
9 median in the market when compared to these contracts. Union wages within the  
10 utility industry are increasing on average by 3% per year, and this equates to our  
11 current annual wage increases in the Company contract.

12 **IV. BACKGROUND OF PENSION, PBOP, AND 401(k) PLANS**

13 **Q. Please describe the current Pension and PBOP plans sponsored by the Unitil**  
14 **Companies.**

15 A. The Unitil Companies sponsor the Unitil Corporation Retirement Plan ("Pension  
16 Plan") which provides monthly retirement income to eligible employees who  
17 qualify for a retirement benefit. The Pension Plan retirement benefits are based  
18 upon an employee's level of compensation and length of service. The Pension  
19 Plan currently covers approximately 763 people, including 295 people who are  
20 currently receiving benefits. The Pension Plan maintains an investment trust fund

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

3 The Unutil Companies also sponsor a Plan for Post-retirement Benefits Other than  
4 Pension ("PBOP Plan"), which provides a variety of health and welfare benefits  
5 to approximately 495 employees and 334 retirees and their beneficiaries. For  
6 postretirement benefits, the PBOP Plan provides health insurance benefits for  
7 retirees and their spouses under age 65 under either a Consumer Directed Health  
8 Plan ("CDHP") or a Preferred Provider Organization plan ("PPO"), a Medicare  
9 Supplement insurance plan for eligible retirees and spouses over age 65, partial  
10 reimbursement of Medicare premiums, and a modest paid-up life insurance  
11 benefit for retirees. Widows and widowers of deceased retirees are also covered  
12 by the health insurance benefits. The PBOP Plan currently maintains two  
13 Voluntary Employee Trusts and a 401(h) Account within the Pension Plan to fund  
14 covered benefits.

15 With a few exceptions, the Pension and PBOP Plans of the Unutil Companies  
16 cover union and non-union employees equally and the provisions of the plans and  
17 the benefits provided under the plans apply to management and non-management  
18 in the same way.

19 Effective January 1, 2010, the following changes were made to the PBOP for non-  
20 union employees. Non-union employees who retire on or after January 1, 2010  
21 now pay 20% of the cost of their retiree medical benefits. The new company  
22 contribution level includes both the medical benefits before age 65 and the

1 Medicare supplement benefits after age 65. In addition, future retirees will not  
2 receive the partial reimbursement toward their Medicare premiums. In addition,  
3 non-union employees who are hired on or after January 1, 2010 will only be  
4 provided with company subsidized medical insurance until they reach age 65, but  
5 will not be eligible to receive a Medicare supplement plan after age 65.  
6 Effective June 1, 2012, the following changes were made to the PBOP for union  
7 employees. Union employees who retire on or after June 1, 2012 now contribute  
8 toward the cost of their retiree medical benefits at the same rate as active union  
9 employees on the date they retire. In addition, for union employees who are  
10 hired on or after June 1, 2012, no post-65 retiree medical coverage will be  
11 provided.

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

13 A. The current Pension Plan is a consolidated retirement plan that resulted from the  
14 merger of the Exeter & Hampton Electric Company Pension Plan, the Concord  
15 Electric Company Pension Plan, the Fitchburg Gas and Electric Light Company  
16 (“FG&E”) Pension Plan, the FG&E - Brotherhood of Utility Workers of New  
17 England, Inc. Local No. 340 Pension Plan, and the Unitil Corporation Retirement  
18 Plan as adopted by Unitil Service. The final merger of all these various  
19 retirement plans occurred in 1998. The Plan was amended again in 2009  
20 following the acquisition of Northern Utilities, Inc. and Granite State Gas  
21 Transmission, Inc.

1 The Pension Plan currently offers a defined pension benefit to all eligible  
2 employees of the Unitil Companies, including the employees of Unitil Energy.  
3 Certain predecessor plan benefits are grandfathered in accordance with IRS  
4 regulations.

5 Effective January 1, 2010, Unitil Corporation closed the Retirement Plan to new  
6 non-union hires; and effective June 1, 2012, the Retirement Plan was closed to  
7 new union employees. These new hires are not eligible for any benefits from the  
8 defined benefit pension plan, but rather will receive all of their retirement benefits  
9 from an Enhanced 401(k) plan.

10 Prior to the closing of the plan, current employees had a choice of continuing to  
11 participate in the Pension Plan with no change to their benefit or to receive a  
12 frozen benefit from the defined benefit plan and to receive all future benefit  
13 accruals from the Enhanced 401(k).

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

15 A. Unitil Energy and the Unitil Companies have provided post-retirement health and  
16 welfare benefits dating back to 1970 and earlier. More recently, from January,  
17 1993 to December, 2003, these benefits were primarily provided by the Unitil  
18 Retiree Trust. The Unitil Retiree Trust was formed as a special purpose entity in  
19 1993 and assumed the liability for the majority of retiree medical benefits. The  
20 Unitil Retiree Trust was dissolved at the end of 2003, when Unitil Energy and the  
21 Unitil Companies adopted Financial Interpretation Number 46 ("FIN 46"). As a

1 result, Unitil Energy and the Unitil Companies have now directly assumed the  
2 liability for these benefits.

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

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

19 **Q. Please describe the 401(k) plan sponsored by the Unitil Companies.**

20 **A.** The 401(k) plan is a tax-deferred savings plan which was established for the  
21 benefit of Unitil’s employees, effective January 1, 1985. For eligible employees  
22 who are participants in the Pension Plan, the Company matches employees’

1 contributions up to 3% of base pay; and for employees who are not participants in  
2 the Pension Plan, the Company both matches employees' contributions up to 6%  
3 of base pay and makes a contribution equal to 4% of an employee's base pay.

4 **Q. Are you sponsoring any adjustments to the Pension, PBOP and/or 401(k)**  
5 **expenses?**

6 A. Yes, I am.

7 **Q. Please describe the adjustments made to the Pension and PBOP expenses.**

8 A. Each year the Company's actuary determines the annual Pension and PBOP  
9 expenses based on a variety of factors including a participant census, discount  
10 rates, expected return on plan assets, rate of compensation increase and medical  
11 trend rates. A comparison of the 2016 O&M expense to the 2015 test year O&M  
12 expense for the Company and for Unitil Service (allocable to the Company)  
13 reflects a total decrease in pension expense of \$106,192 and a total increase in  
14 PBOP expense of \$150,564. Please see Schedule RevReq 3-3.

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

16 A. The purpose of the 401(k) adjustment is to update the Company's 401(k) costs to  
17 reflect the effect of the wage increases that took effect during 2016 and that will  
18 take effect in 2017. As shown on Schedule RevReq 3-3, the 401(k) costs  
19 adjustment increases test year expense by \$44,100.

20 **Q. Please describe how the 401(k) adjustment was calculated.**

21 A. The first step was to determine the 401(k) cost for 2016. This was achieved by  
22 annualizing the actual 401(k) costs in the month of February. This amount was

1 then increased to reflect the effect of the 2017 average wage increase. The  
2 resulting pro forma costs for the 401(k) were then reduced by the amounts  
3 chargeable to capital to determine the pro forma O&M 401(k) expense. The test  
4 year O&M cost was then deducted to derive the O&M 401(k) adjustment of  
5 \$7,492, as reflected on Schedule RevReq 3-3.

6 **Q. Please explain the adjustment for the 401(k) costs included in the Unutil**  
7 **Service charge.**

8 A. The Unutil Service costs are allocated among the client companies of Unutil  
9 Service on the basis of labor charged. The total annualized Unutil Service 401(k)  
10 cost for 2016 was calculated in an identical manner as the Company adjustment,  
11 and then was allocated to the Company based on the test year allocation  
12 percentage of 28.32%. Similar to the Company's direct 401(k) cost, the Unutil  
13 Service annualized 401(k) cost allocated to the Company was increased to reflect  
14 the effect of the 2017 wage increase. The total pro formed 401(k) cost for Unutil  
15 Service was then reduced by the amount chargeable to capital to arrive at the  
16 401(k) O&M expense from Unutil Service to Unutil Energy. The test year O&M  
17 401(k) cost was then deducted to derive the O&M 401(k) adjustment of \$36,608  
18 as reflected on Schedule RevReq 3-3.

19 **Q. What is the total Pension, PBOP and 401(k) adjustment that you propose?**

20 A. The total Pension, PBOP and 401(k) adjustment is \$88,471. See Schedule RevReq  
21 3-3.

1 **V. PAYROLL AND RELATED TAXES**

2 **Q. As presented in the pro forma adjustment of O&M expenses, what does**  
3 **payroll consist of?**

4 A. Payroll consists of base pay, incentive pay, overtime, standby pay and callout pay.  
5 Payroll does not include payments to employees for Unitol Energy's wellness  
6 benefit, medical opt-out payouts, service awards, and retirement awards.

7 **Q. Why did you exclude those elements from the pro forma adjustment to**  
8 **payroll?**

9 A. Those elements of payroll are processed through payroll because they are subject  
10 to withholding taxes. They are not, however, subject to the annual pay rate  
11 increases, and thus are excluded from the payroll adjustment.

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

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

- 15 1. Annualization of the pay rate increases that have occurred during calendar  
16 year 2015 for the union employees;
- 17 2. The effect of pay rate increases that occurred on January 1, 2016 and that  
18 will occur on June 1, 2016; January 1, 2017 and June 1, 2017; and
- 19 3. To remove incentive compensation expensed during the test year that was  
20 above the target level.

21 I have made these adjustments to the payroll for both Unitol Energy and Unitol  
22 Service.

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

2 A. The first step was to normalize the test year payroll to reflect incentive  
3 compensation at a target payout level. This amount was then reduced by the  
4 amount charged to capital in order to arrive at the Test Year O&M Payroll,  
5 adjusted for target incentive compensation. The next step was to annualize the  
6 effect of the 2015 pay rate increase that occurred during the test year. The pay  
7 rate increases for 2016 and 2017 were added to the annualized O&M payroll and  
8 applied separately, by union and non-union categories and by year, to arrive at the  
9 O&M payroll pro formed for 2015, 2016 and 2017 rate increases.

10 The wage increases for union employees were based on the current contract that  
11 went into effect on June 1, 2012. On June 1, 2015 union employees received a  
12 3% increase. On June 1, 2016 and on June 1, 2017, the union pay increases will  
13 again be 3%, in accordance with the current contract.

14 The wage increases for non-union employees take effect on January 1 each year.  
15 On January 1, 2016, the average annual increase was 3.8%. For January 1, 2017,  
16 the average annual increase for non-union employees is projected to be 4 %. The  
17 actual increase will be determined as part of the annual salary budget process  
18 which will occur in September 2016.

19 The effect of the Unitil Energy pay rate increases for both union and nonunion  
20 employees is an increase in O&M Payroll of \$137,438. See Schedule RevReq 3-  
21 1, column 4, line 11.

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

1 A. The adjustment to the Unitil Service payroll was prepared in a similar manner as  
2 the adjustment to the Unitil Energy non-union payroll. First, I identified the  
3 Unitil Service test year payroll expense and added to it incentive compensation at  
4 a target payout level. Next, I determined the amount included in the monthly  
5 billings for services provided by Unitil Service to Unitil Energy. This amount was  
6 then reduced by the amount charged to capital in order to arrive at the test year  
7 O&M payroll and incentive compensation at Target. I then determined the effect  
8 of the average 2016 wage increase of 4.2% for Unitil Service employees that  
9 occurred on January 1, 2016, as well as the effect of the projected average 2017  
10 wage increase of 4% for Unitil Service employees that is expected to occur on  
11 January 1, 2017. These increases were applied to the test year O&M payroll  
12 amount of Unitil Service charges. The resulting incremental payroll cost was  
13 added to the test year payroll to determine the total test year payroll, pro formed  
14 for the 2016 and 2017 rate increases of \$406,372. See Schedule RevReq 3-1,  
15 column 5, line 11.

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

17 A. The incentive compensation expense included in the test year is based on an  
18 incentive compensation payout which was higher than target for the 2015 plan  
19 year. The total test year O&M cost was reduced by \$212,702 to reflect a target  
20 payout level. See Schedule RevReq 3-1, column 6, line 13.

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

1 A. Yes, as shown on Schedule RevReq 3-11, an adjustment was prepared to pro form  
2 the amount of the Social Security and Medicare taxes related to the payroll  
3 adjustments described above.

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

5 A. Currently the amount of earnings subject to Social Security taxes is limited to  
6 \$118,500 per individual employee. The Medicare tax applies to all earnings  
7 without any limit. A review of the test year payroll indicated that some  
8 employees' earnings exceeded the \$118,500 limit subject to Social Security.  
9 Thus, the payroll tax adjustment excludes the effect of the salary increase on the  
10 payroll that exceeds the Social Security limit. To determine the additional Social  
11 Security tax, first, the payroll was calculated for those employees who exceed the  
12 Social Security maximum after pro forming for the payroll rate increases. Next,  
13 the portion of the pro formed payroll rate increase of these employees that  
14 exceeded the Social Security maximum was calculated. Finally, the O&M  
15 portion of those amounts was calculated and subtracted from the total O&M  
16 payroll increase of \$543,810. The resulting amount was multiplied by the Social  
17 Security tax rate of 6.2%, deriving the additional SS tax amount of \$23,949. To  
18 determine the additional Medicare tax, the total O&M payroll increase of  
19 \$543,810 was multiplied by the Medicare tax rate of 1.45%, deriving the  
20 additional Medicare tax amount of \$7,885. The total of additional Social Security  
21 and Medicare taxes is \$31,834.

1 **VI. MEDICAL AND DENTAL INSURANCE**

2 **Q. What is the purpose of the medical and dental insurance adjustment?**

3 A. The medical and dental insurance adjustment, as developed on Schedule RevReq  
4 3-2, was prepared to pro form for changes in insurance rates that occurred  
5 effective January 1, 2016 and are forecasted to occur on January 1, 2017. I have  
6 made these adjustments to the medical and dental insurances for both Unitil  
7 Energy and Unitil Service.

8 **Q. What steps has Unitil Energy taken to contain the increases in its medical  
9 and dental insurance expense?**

10 A. Unitil Energy has taken several steps to contain these costs:

- 11 • Unitil periodically compares the coverage and cost of its insurance  
12 programs to market alternatives. This review is conducted for Unitil  
13 Energy individually and as part of the Unitil Companies, to ensure that the  
14 value for the cost of insurance is maintained, and that costs are contained  
15 as much as feasible.
- 16 • Unitil Energy requires its employees to contribute to the cost of their  
17 medical and dental coverage in order to help offset cost increases. These  
18 employee contributions have increased over the years to the current level  
19 of 20% of total premium for non-union employees and 19% for union  
20 employees. The contribution percentage will increase to 20% for union  
21 employees effective January 1, 2017.

- 1           • On January 1, 2006, Until Energy began realizing significant reductions  
2           in its medical and dental insurance cost for its union employees with the  
3           change in provider to the New England Electrical Workers Benefit Fund  
4           (“NEEWBF”).
- 5           • On January 1, 2007, Until Energy introduced the Consumer Directed  
6           Health Plan (“CDHP”) for its non-union employees. A CDHP is designed  
7           to educate its members of their various health care options and empower  
8           them to take control of their health, as well as the dollars they spend on  
9           their care. CDHPs have two parts, a high deductible health insurance plan  
10          and a health savings account (HSA) funded with pre-tax dollars for out of  
11          pocket medical expenses. The premiums for the CDHP have been  
12          approximately 30% lower than the premiums for the PPO plan.
- 13          • Effective January 1, 2010, the CDHP was the single health plan offering  
14          for its non-union employees.
- 15          • Effect June 1, 2015, the NEEWBF announced a 30% increase in its rates.  
16          The Company negotiated a settlement with the union to terminate  
17          coverage under the NEEWBF and replace the coverage with a choice of  
18          two plans: 1) the CDHP/HSA, the same plan in which the nonunion  
19          employees are participants, or 2) a PPO plan with similar coverage to the  
20          NEEWBF, but at a lower cost.

21   **Q.   Please briefly provide some information about the current plans relevant to**  
22   **this adjustment.**

1 A. Currently Unitil Energy offers group medical coverage to its employees through  
2 Health Plans, Inc. and group dental coverage through Northeast Delta Dental.  
3 Non-union employees receive medical coverage through the CDHP, while union  
4 employees have a choice to receive medical coverage through the CDHP or a  
5 PPO plan. On January 1, 2016 the current premium working rates went into effect  
6 for the Health Plans and Northeast Delta plans. These rates are developed by  
7 underwriters at each insurance company and are based on the Unitil Companies'  
8 historical claims experience and insurance industry trend analysis. Effective  
9 January 1, 2016, Unitil Energy pays 81% of the costs for union employees and the  
10 employees pay 19%. Effective January 1, 2017, union employees will contribute  
11 20% toward the cost of their coverage. For the non-union employees, Unitil  
12 Energy pays 80% of the cost for the CDHP and the employees pay 20% of the  
13 premium working rate. In addition, for employees that are enrolled in the CDHP,  
14 Unitil Energy contributes one third of the employees' deductible to their HSA.

15 **Q. Please describe the adjustment to Unitil Energy medical and dental**  
16 **insurance.**

17 A. An employee plan participant count was developed for each insurance plan for all  
18 participants by type of coverage, (individual, two person, or family). The  
19 employee participant counts excluded employees who choose to opt-out of the  
20 medical and/or dental plans. The 2016 rates were applied to the employee  
21 participant counts to derive the annual costs related to the plans. These costs were  
22 then increased by 5% to reflect the effect of estimated 2017 rate increases. The

1 total medical and dental insurance costs were then reduced by 20% which  
2 represents the amounts that the employees will contribute toward the cost of their  
3 coverage. Added to these costs were amounts to reflect payments to employees  
4 who choose to opt out of the medical plan and the company contributions to the  
5 employees' HSA. The medical costs were also reduced by the amount of the  
6 Retiree Drug Subsidy. The proformed medical and dental costs were further  
7 reduced by the amounts chargeable to capital to determine proformed medical and  
8 dental insurance O&M expense for the test year.

9 The total pro formed medical and dental insurance O&M expense is \$171,290.

10 This amount was compared to the test year medical and dental insurance O&M  
11 expense to derive the total O&M Medical & Dental Insurance adjustment of  
12 \$3,005. See Schedule RevReq 3-2, column 3.

13 **Q. Please explain the adjustment for the medical and dental insurance included**  
14 **in the Unitil Service charge.**

15 A. Medical and dental costs for Unitil Service employees are allocated among the  
16 client companies of Unitil Service on the basis of labor charged. During the test  
17 year, the Unitil Energy allocation percentage was 28.32%. The Unitil Service  
18 adjustment for medical and dental insurance was calculated in an identical manner  
19 as the Unitil Energy adjustment, and then subjected to the allocation process. To  
20 pro form the effect of the January 1, 2016 and 2017 working rates, a Unitil  
21 Service employee plan participant count was developed. The employee  
22 participant count excluded employees who choose to opt out of the medical and/or

1 dental plans. The 2016 working rates were applied to this employee participant  
2 count to derive the annual cost related to the plans. Added to these costs was the  
3 effect of an estimated 5% increase in the 2017 working rates. Next, employee  
4 contributions toward the cost of their coverage were subtracted and the payments  
5 to employees who choose to opt out of the medical plan and the Company's  
6 contributions to the employee's HSA were added. These costs were then reduced  
7 by the amount of the Retiree Drug Subsidy which resulted in the total pro formed  
8 2016 and 2017 medical and dental cost. The allocation factor of 28.32% was  
9 applied to this amount and the allocated amount was reduced by the amount  
10 chargeable to capital. The resulting pro formed medical and dental insurance  
11 O&M expense was compared to the test year O&M expense to derive the  
12 adjustment of \$49,999. See Schedule RevReq 3-2, column 4.

13 **Q. What is the total medical and dental insurance adjustment that you propose?**

14 A. The total medical and dental insurance adjustment is \$53,004. See Schedule  
15 RevReq 3-2, column 2.

16 **VII. CONCLUSION**

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

18 A. Yes, it does.