

**NORTHERN UTILITIES, INC.**

**DIRECT TESTIMONY OF**

**Elizabeth M. Shaw**

**Exhibit EMS-1**

**New Hampshire Public Utilities Commission**

**Docket No. DG 17-070**

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1 **I. INTRODUCTION**

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

3 A. My name is Elizabeth M. Shaw. My business address is 6 Liberty Lane West,  
4 Hampton, NH 03842.

5

6 **Q. What is your position and what are your responsibilities?**

7 A. I am the Director of Human Resources for Unitil Service Corp., “(Unitil  
8 Service”), which provides centralized management and administrative services to  
9 each of Unitil Corporation’s affiliates (the “Unitil Companies”). My primary  
10 responsibilities are managing the Human Resources function which includes both  
11 the benefits and payroll.

12

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

14 A. I began my career, working as a Rate Analyst for Algonquin Gas Transmission  
15 Company. From 1987 through 1996, I held various positions in the Rates  
16 Department at Bay State Gas Company, now known as Columbia Gas of  
17 Massachusetts. I primarily worked on Federal Energy Regulatory Commission  
18 (“FERC”)-related filings for Bay State Gas’ subsidiary companies. From  
19 December 1996 through September 2004, I worked for Portland Natural Gas  
20 Transmission System (“PNGTS”) as the Director of Administration. I was  
21 responsible for all areas of Administration and Human Resources, including  
22 benefits and payroll. I began working for Unitil Service in March 2005 as a Sr.

1 Human Resources Analyst and was recently promoted to the position of Director  
2 of Human Resources. I hold a Master’s Degree in Business Administration from  
3 Bentley College and a Bachelor’s Degree in Management from Boston College.

4

5 **Q. Have you previously testified before this Commission or other regulatory**  
6 **agencies?**

7 A. Yes. While working at Bay State Gas Company I filed and supported testimony  
8 in cost of gas adjustment filings made with the Maine Public Utilities  
9 Commission. I’ve also testified before the FERC and the New Hampshire Public  
10 Utilities Commission and before the Massachusetts Department of Public Utilities  
11 on behalf of Fitchburg Gas and Electric Light Company, an affiliate of Northern.

12

13 **II. SUMMARY OF TESTIMONY**

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

15 A. The purpose of my testimony is to: (a) provide an overview of the Company’s  
16 compensation and benefit programs and (b) to sponsor the pro forma adjustments  
17 made to the following items of O&M Expense:

- 18 1) Payroll and Related Taxes
- 19 2) Medical and Dental Insurance
- 20 3) Pension, Supplemental Executive Retirement Plan (SERP) and Post-  
21 retirement Benefits Other than Pension (PBOP)
- 22 4) 401(k) expense

1

2 **III. COMPENSATION PROGRAM**

3 **Q. What is the Unitil Companies' salary policy?**

4 A. The Unitil Companies' policy is to compensate employees at the median of the  
5 market place for base pay and total cash compensation.

6

7 **Q. Did Northern perform a market study to evaluate the competitiveness of its  
8 total compensation?**

9 A. Yes, a compensation study was performed for the Unitil Companies in 2014. The  
10 compensation study was developed with the assistance of Towers Watson, an  
11 internationally recognized consulting firm in the area of employment  
12 compensation. The study of the Unitil Companies' salaries and benefits was  
13 undertaken for the express purpose of comparing them to external markets.  
14 Towers Watson assisted in: a) reviewing competitiveness of base salaries and  
15 salary ranges; b) reviewing and recommending an appropriate and competitive  
16 cash incentive plan; c) recommending changes to the executive plans; and d)  
17 evaluating and recommending changes to all the non-cash employee benefits  
18 plans.

19

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

21 A. Towers Watson used published surveys from its own database as well as  
22 information from the Hay Group and Mercer. Specific survey sources included:

1 the Towers Watson Energy Services Executive Compensation Database; the  
2 Towers Watson Energy Services Middle Management and Professional  
3 Compensation Database; the Hay Group Salary Survey; the Towers Watson  
4 General Industry Call Center and Customer Service Compensation Survey; the  
5 Towers Watson General Industry Human Resources Compensation Survey; the  
6 Towers Watson General Industry Information Technology Compensation Survey;  
7 the Towers Watson General Industry Logistics and Supply Chain Management  
8 Compensation Survey; the Towers Watson General Industry Supervisory &  
9 Management Compensation Survey; the Towers Watson Office and Business  
10 Support Survey; the Towers Watson General Industry Professional, Technical and  
11 Operation Compensation Survey; and the Towers Watson General Industry Sales  
12 Compensation Survey. In addition, Towers Watson conducted a search of other  
13 utility proxy statements on file with the Securities and Exchange Commission  
14 (“SEC”) in order to double-check the competitiveness of salaries for certain  
15 positions.

16

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

19 A. Yes. Towers Watson recommended that the Unitil Companies continue its policy  
20 of paying at the median for base pay, total cash compensation, and total  
21 compensation when compared to their database of utility companies. They also

1 concluded that median pay levels in New England are roughly equal to median  
2 pay levels nationwide.

3

4 **Q. What was Towers Watson’s conclusion about the competitiveness of the**  
5 **Unitil Companies’ pay structure?**

6 A. Towers Watson concluded that the Unitil Companies’ pay structure was very  
7 close to the market median for most job grades and for most positions. Some  
8 positions and some pay grades were below market median, and Towers Watson  
9 made specific recommendations for changes to these pay levels.

10

11 **Q. What actions have Northern and Unitil Service taken to implement the**  
12 **recommendations of Towers Watson?**

13 A. The Company and Unitil Service began to implement the recommendations in  
14 2015 by adjusting the pay ranges for positions that were below the market median  
15 and by adjusting grade levels for specific positions as recommended by Towers  
16 Watson. Further, effective for the 2015 Plan Year, the Company has adjusted  
17 Target Award levels under its Incentive Plan and its Restricted Stock plan to  
18 position itself closer to the market median.

19

20 **Q. How are the wages determined for the union employees?**

21 A. Union wage rates are established periodically through the collective bargaining  
22 process. With the current union contract set to expire on June 5, 2017, the

1 Company commenced negotiations with the union employees in Northern’s New  
2 Hampshire division early this year and successfully agreed to a 3-year contract  
3 extension. As a result of that process, the employees will receive a general wage  
4 increase of 3% for each of the next three years, effective in June 2017, 2018 and  
5 2019.

6

7 **IV. PAYROLL AND RELATED TAXES**

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

9 A. The payroll adjustment, as reflected on Schedule RevReq 3-7, adjusts the test year  
10 payroll charged to O&M Expense for the following:

- 11 1. Annualization of the pay rate increases that have occurred during calendar  
12 year 2016 for the union employees;
- 13 2. The effect of pay rate increases that occurred on January 1, 2017 and June  
14 4, 2017 and that are projected to occur on January 1, 2018 and June 3,  
15 2018; and
- 16 3. To remove incentive compensation expensed during the test year which  
17 exceeded the target level.

18 These adjustments have been made to the payroll for both Northern and Unutil  
19 Service.

20

21 **Q. Please describe the adjustment to Northern’s payroll.**

1 A. The payroll adjustment to Northern’s test year payroll is shown on Schedule  
2 RevReq 3-7, page 1. The first step was to normalize the test year payroll to  
3 reflect incentive compensation at a target payout level. This amount was then  
4 reduced by the amount charged to capital in order to arrive at the Test Year O&M  
5 Payroll, adjusted for target incentive compensation. The next step was to  
6 annualize the effect of the 2016 pay increase that occurred during the test year.  
7 Added to the annualized O&M payroll, were the pay rate increases for 2017 and  
8 2018, which were applied separately, by union and nonunion categories, and by  
9 year, to arrive at the O&M payroll pro formed for 2016, 2017 and 2018 pay rate  
10 increases. The 2016 wage increase of 3 percent for union employees was based on  
11 the contract that is set to expire on June 5, 2017. In accordance with the contract  
12 extension, effective June 6, 2017, the wage increase for 2017 is 3.0 percent and  
13 for 2018, the wage increase will again be 3 percent.  
14 The wage increases for nonunion employees take effect on January 1 each year.  
15 On January 1, 2017, the average annual increase was 3.63 percent. For January  
16 1, 2018, the average annual increase for nonunion employees is projected to be  
17 the same, 3.63 percent, which will be updated during the pendency of this  
18 proceeding. The actual increase for 2018 will be determined as part of the annual  
19 salary budget process which will occur in the Fall of 2017.  
20 The effect of the Northern pro forma payroll adjustments for both union and  
21 nonunion employees is an increase in O&M of \$142,731. See Schedule RevReq  
22 3-7, page 1, column 6, line 11.

1

2 **Q. Please describe the adjustment to the Unutil Service payroll.**

3 A. The payroll adjustment to Unutil Service’s payroll is shown on RevReq 3-7, pages  
4 1 and 2. The adjustment to the Unutil Service payroll was prepared in a similar  
5 manner as the adjustment to Northern’s nonunion payroll. First, the Unutil Service  
6 test year payroll was identified and to it was added the incentive compensation at  
7 a target payout level. Next, the amount included in the monthly billings for  
8 services provided by Unutil Service to Northern’s New Hampshire division was  
9 determined. To this amount, the 2017 actual rate increase of 4.39 percent  
10 (including market adjustments and promotions) and the 2018 projected rate  
11 increase of 4.39 percent were applied separately for each year to arrive at the pro  
12 formed payroll for the 2017 and 2018 pay increases. The projected increase for  
13 2018 will be updated during the pendency of this proceeding when the actual  
14 increase is determined as part of the annual salary budget process which will  
15 occur in the Fall of 2017. This amount was then reduced by the amount charged  
16 to capital in order to arrive at the pro formed O&M payroll amount of the Unutil  
17 Service charge. The effect of the Unutil Service pro forma payroll adjustment  
18 charged to Northern’s New Hampshire division is an increase in O&M of  
19 \$285,491. See Schedule RevReq 3-7, page 1, column 7, line 11.

20

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

1 A. The adjustment for incentive compensation is shown on Schedule RevReq 3-7,  
2 page 1. The incentive compensation expense included in the test year reflects a  
3 payout level which was higher than target for the 2016 plan year. The total test  
4 year O&M cost was reduced by \$154,906 to adjust the test year amount to reflect  
5 the lower target incentive compensation payout level. See Schedule RevReq 3-7,  
6 page 1, column 8, line 12.

7 **Q. What is the total adjustment to the test year payroll for the pay rate**  
8 **increases describe above and for the normalization of the Incentive**  
9 **Compensation expense?**

10 A. The total adjustment to the test year payroll is \$273,315 as reflected on Schedule  
11 RevReq 3-7, page 1, column 8, line 13.

12  
13 **Q. Have you prepared a payroll tax adjustment?**

14 A. Yes, as shown on Schedule RevReq 3-19, an adjustment was prepared to pro form  
15 the amount of the Social Security and Medicare taxes related to the payroll  
16 adjustments described above.

17  
18 **Q. Please describe how the payroll tax adjustment was calculated.**

19 A. The payroll tax adjustment is shown on RevReq 3-19. Currently the amount of  
20 earnings subject to Social Security taxes is limited to \$127,200 per individual  
21 employee. The Medicare tax applies to all earnings without any limit. A review  
22 of the test year payroll indicated that some employees' earnings exceeded the

1       \$127,200 limit subject to Social Security. Thus, the payroll tax adjustment  
2       excludes the effect of the salary increase on the payroll that exceeds the Social  
3       Security limit. To determine the additional Social Security tax, first, the payroll  
4       was calculated for those employees who exceed the Social Security maximum  
5       after pro-forming the payroll rate increases. Next, the portion of the pro formed  
6       payroll rate increase of these employees that exceeded the Social Security  
7       maximum was calculated. Finally, the O&M portion of those amounts was  
8       calculated and subtracted from the total O&M payroll increase of \$428,221. The  
9       resulting amount was multiplied by the Social Security rate of 6.2 percent,  
10      deriving the additional Social Security tax amount of \$18,705. To determine the  
11      additional Medicare tax, the total O&M payroll increase of \$428,221 was  
12      multiplied by the Medicare tax rate of 1.45 percent, deriving the additional  
13      Medicare tax amount of \$6,209. The total of additional Social Security and  
14      Medicare taxes is \$24,915.

15   **V.    MEDICAL AND DENTAL INSURANCE**

16   **Q.    Please describe the Company’s current medical and dental insurance plans.**

17   A.    The Company provides two different medical insurance plans for its employees; a  
18       Consumer Directed Health Plan (CDHP) and an Exclusive Provider Organization  
19       Plan (EPO). The CDHP is the single health plan offering for the Company’s  
20       nonunion employees and for new union employees hired on or after June 6, 2014.

1 Union employees hired prior to June 6, 2014 have a choice of enrolling in either  
2 the CDHP or the EPO.

3 The CDHP has two parts: a high deductible health insurance plan and a health  
4 savings account (HSA) funded with pre-tax dollars for out-of-pocket medical  
5 expenses. The deductible is \$1,500 for individual coverage and \$3,000 for two-  
6 person coverage and family coverage. The Company contributes one-third of the  
7 deductible to the employee's HSA. After the deductible is satisfied, coinsurance  
8 of 10% applies, up to an annual out-of-pocket maximum of \$3,000 for individual  
9 coverage and \$6,000 for two-person and family coverage. Coinsurance for out-  
10 of-network coverage is 30% with higher out-of-pocket maximums. Unlike the  
11 CDHP, the EPO plan has no deductible or coinsurance; nor does it have any out-  
12 of-network benefits. However, most services are subject to a co-payment.

13 The Company also offers two dental plans, a premium plan for all Northern  
14 employees and the nonunion employees of Unitil Service, which has a maximum  
15 annual benefit of \$2,000; and a standard plan for the union employees of Unitil  
16 Service which has a maximum annual benefit of \$1,500. Both plans provides  
17 preventive care, restorative care and orthodontic benefits.

18 **Q. What steps has the Company taken to contain the increases in the medical**  
19 **insurance expense?**

20 **A.** The Company has taken several steps to contain these costs:

1           Unitil periodically compares the coverage and cost of its insurance programs to  
2           market alternatives. This review is conducted for Northern individually and as  
3           part of the Unitil Companies, to ensure that the value for the cost of insurance is  
4           maintained, and that costs are contained as much as feasible.

5           On January 1, 2007, the Company introduced as an option the Consumer Directed  
6           Health Plan for its nonunion employees. The premiums for the CDHP are  
7           significantly lower than the Company's other medical plan offerings.

8           Effective January 1, 2010, the CDHP was the single health plan offering for its  
9           nonunion employees.

10          Effective January 1, 2011, a coinsurance feature of 10% was added to the CDHP.  
11          Coinsurance is the percentage of allowed charges for which the member is  
12          responsible after the deduction is satisfied. In addition, the Company increased  
13          the stop-loss limit on claims from \$125,000 to \$200,000.

14          The CDHP became the single health plan offering for new union employees hired  
15          on or after June 6, 2014.

16          **Q. As stated earlier, with the assistance of Towers Watson, Unitil performed a**  
17          **benefits study in 2014. On what sources did Towers Watson rely for its**  
18          **market data?**

19          A. Towers Watson based their study on the benefits data provided to it by 14 peer  
20          utility companies who participate in Towers Watson's benefits surveys. Included  
21          in the list of peer utility companies are five New England companies.

1 **Q. What was Towers Watson’s conclusion about the competitiveness of the**  
2 **Unitil Companies’ benefits?**

3 A. Towers Watson concluded that, on a total value basis, Unitil’s overall benefit  
4 program is right at the mean.

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

6 A. In its ongoing efforts to contain its medical costs, Northern recently asked its  
7 benefits insurance broker to compare the coverage and cost of its insurance  
8 medical program to current market alternatives. As a result of that review, the  
9 Company’s broker succeeded in finding a less costly alternative: and thus, in  
10 order to achieve these cost savings, the Company plans to change its third-party  
11 administrator for its medical program effective July 1, 2017.

12 The medical and dental insurance adjustment, as developed on Schedule RevReq  
13 3-9, was prepared to pro form for changes in insurance rates that occurred or will  
14 occur during 2017 and are forecasted to occur on January 1, 2018. I have made  
15 these adjustments to the medical and dental insurances for both Northern and  
16 Unitil Service. Primarily as a result of the change in medical plan administrators,  
17 Northern’s O&M Medical and Dental Insurance costs is projected to decrease by  
18 \$11,878.

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

1 A. The adjustment for Medical and Dental is shown on RevReq 3-9. An employee  
2 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 2017  
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  
7 20%, the amount that all employees contribute toward the cost of their coverage.  
8 Added to these costs were amounts to reflect payments to employees who choose  
9 to opt-out of the medical plan and the Company's contributions to the employees'  
10 HSAs. These costs were increased by 7% for medical and 2% for dental to reflect  
11 the effect of the projected 2018 rate increases, which will be updated during the  
12 pendency of this proceeding when the actual 2018 rates are determined. The  
13 Medical and Dental costs were then reduced by the amounts chargeable to capital  
14 to determine the pro formed Medical and Dental Insurance O&M expense of  
15 \$240,703. This amount was compared to the Medical and Dental Insurance costs  
16 developed for 2016 based on the 2016 rates to derive the 2017 and 2018 decrease  
17 of \$9,501 as reflected on Schedule RevReq 3-9.

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

20 A. The adjustment is shown on RevReq 3-9. Similar to Northern, the nonunion  
21 employees of Unitil Service are all covered under the CDHP. Union employees  
22 of Unitil Service hired prior to January 1, 2017 have a choice of coverage under

1 the CDHP or the Preferred Provider Organization Plan (PPO). For union  
2 employees hired after January 1, 2017, the CDHP is the only plan offered.

3 The PPO plan provides both in- and out-of-network services. No deductible or  
4 coinsurance is required for in-network services, but a copayment is required for  
5 most services. Out-of-network services are subject to a \$400 per person annual  
6 deductible (\$800 per family) followed by 50% coverage for the remaining  
7 covered medical expenses.

8 The Unitil Service Medical and Dental costs are allocated among the client  
9 companies of Unitil Service on the basis of labor charged. The pro forma  
10 adjustment was calculated in an identical manner as the Northern adjustment,  
11 except for this allocation process. To proforma the effect of the 2017 and 2018  
12 rates, a Unitil Service employee participant count was developed. The employee  
13 participant count excluded employees who choose to opt-out of the medical plan.  
14 The 2017 rates were applied to this employee participant count to derive the 2017  
15 annual costs. Subtracted from these costs were amounts that Unitil Service  
16 employees contribute toward the cost of their coverage and added to these costs  
17 were amounts to reflect payments to employees who choose to opt out of the  
18 medical plan, and the Company's contributions to the employees' HSAs. These  
19 costs were then increased by 7% for medical and 2% for dental to reflect the  
20 effect of the projected 2018 rate increases. The Unitil Service allocation factor  
21 for Northern's New Hampshire division was applied to this amount and the  
22 allocated amount was reduced by the amount chargeable to capital. The resulting

1 O&M expense was then compared to the Medical and Dental Insurance cost  
2 developed for 2016 based on the 2016 rates to derive the O&M adjustment of  
3 (\$2,377). This amount is shown on Schedule RevReq 3-9.

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

5 **Q. Please describe the current Pension, SERP and PBOP plans sponsored by the**  
6 **Unitil Companies.**

7 A. The Unitil Companies sponsor the Unitil Corporation Retirement Plan (“Pension  
8 Plan”) which provides monthly retirement income to employees who qualify for a  
9 retirement benefit. The Pension Plan retirement benefits are based upon an  
10 employee’s level of compensation and length of service. At the end of the test  
11 year, the Pension Plan covered approximately 750 people, including 299 people  
12 who are currently receiving benefits. The Pension Plan maintains an investment  
13 trust fund for the management of the Plan’s assets and the funding of current and  
14 future retiree pension benefits.

15 Unitil Service also maintains a Supplemental Executive Retirement Plan  
16 (“SERP”), a non-qualified defined benefit plan which is self-funded. The SERP  
17 is designed to encourage service by the participating executives until retirement  
18 and to then provide a retirement benefit which, when added to other retirement  
19 income of the executive, will ensure a competitive level of retirement income  
20 when compared to other utilities. The SERP is a component of executive  
21 compensation that was evaluated in the Towers Watson 2014 compensation study  
22 and determined to be competitive with the peer group. Eligibility for participation

1 in the Plan is limited to executives selected by the Board of Directors. Currently  
2 the SERP provides benefits to one retired executive while five active employees  
3 are currently eligible.

4 The Unitil Companies also sponsor a Post-retirement Benefits Other than Pension  
5 (PBOP) Plan, which provides a variety of health and welfare benefits to  
6 approximately 210 employees and 337 retirees and their beneficiaries through the  
7 end of the test year. For postretirement benefits, the PBOP Plan provides health  
8 insurance benefits for retirees and their spouses under age 65; a Medicare  
9 Supplement insurance plan for retirees and spouses over age 65; partial  
10 reimbursement of Medicare premiums, and a modest paid-up life insurance  
11 benefit for retirees. Eligible widows and widowers of deceased retirees are also  
12 covered 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 Unitil 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 **Q. How long has the Pension Plan been in place?**

20 A. The current Pension Plan is a consolidated retirement plan that resulted from the  
21 merger of various predecessor plans some of which dated back to 1959. The  
22 current plan was amended in 2009 following the acquisition of Northern and

1 Granite State Gas Transmission, Inc. The Pension Plan currently offers a defined  
2 pension benefit to all eligible employees of the Unutil Companies, including the  
3 employees of Northern’s New Hampshire division. Certain predecessor plan  
4 benefits are grandfathered in accordance with IRS regulations.

5 However, the Retirement Plan was closed to nonunion employees hired  
6 subsequent to January 1, 2010; and to Northern’s New Hampshire Division union  
7 employees hired subsequent to January 1, 2011. These changes were made as a  
8 result of various changes in accounting rules and funding rules which made  
9 maintaining a defined benefit pension plan more expensive.

10 Although these new hires are not eligible for any benefits from the defined benefit  
11 pension plan, they are eligible for the 401(k) plan which has been enhanced for  
12 this group of employees in order to replace the benefits that have been provided  
13 by the defined benefit plan. Further, the 401(k) plan provides this group of  
14 employees with ownership, control and portability of their retirement benefits,  
15 which are not features that are possible with the traditional defined benefit  
16 pension plan.

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

18 A. The SERP was originally established and adopted effective January 1, 1987, and  
19 was amended and restated effective January 1, 1998, and again effective  
20 December 31, 2007. The Plan was further amended and restated in its entirety,  
21 effective December 31, 2016, primarily to amend the definition for Final Average

1 Pay and to add an Article setting forth the procedure for any Claims and Appeals  
2 in the event of non payment of benefits.

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

4 The Unitil Companies have provided post-retirement health and welfare benefits  
5 dating back to 1970 and earlier. While these benefits were once fairly common  
6 within the utility industry, most companies now require retiree contributions  
7 toward the cost of these plans. In an ongoing effort to manage the cost of these  
8 plans, effective January 1, 2010, the following changes were made to PBOP for  
9 nonunion employees. Nonunion employees who retire subsequent to January 1,  
10 2010 will now contribute 20% of the cost of their retiree medical benefits. The  
11 new contribution level includes both the medical benefits before age 65 and the  
12 Medicare supplement benefits after age 65. In addition, future retirees will not  
13 receive the partial reimbursement toward their Medicare premiums. Further,  
14 nonunion employees hired subsequent to January 1, 2010 will only be provided  
15 with Company subsidized medical insurance until they reach age 65, but will not  
16 be eligible to receive a Medicare supplement plan after age 65. Effective June 6,  
17 2010, the following changes were made to the PBOP for Northern's New  
18 Hampshire union employees. Union employees who retire on or after June 6,  
19 2010 now contribute 20 percent toward the cost of their retiree medical benefits.  
20 In addition, for union employees who are hired on or after June 6, 2010, no post-  
21 65 retiree medical coverage will be provided.

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

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

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

18 A. Yes, I am.

19 **Q. Please describe the adjustment made to the Pension, SERP and PBOP**  
20 **expenses.**

21 A. These adjustments are detailed on RevReq 3-10. Each year the Company’s  
22 actuary determines the annual Pension, SERP and PBOP expenses based on a

1 variety of factors including a participant census, discount rates, expected return  
2 on plan assets, rate of compensation increase and medical trend rates. A  
3 comparison of the 2017 O&M expense to the 2016 test year O&M expense for  
4 the Company and for Unitil Service (allocable to the Company) reflects a total  
5 increase in pension expense of \$37,510, a total increase in SERP expense of  
6 \$28,544 and a total increase in PBOP expense of \$150,217. Please see RevReq  
7 3-10.

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

9 **Q. Please describe the Unitil Corporation Tax Deferred Savings and Investment**  
10 **Plan (401(k) Plan) sponsored by the Unitil Companies.**

11 A. The 401(k) plan was established for the benefit of Unitil’s employees, effective  
12 January 1, 1985. For eligible employees who are participants in the Pension Plan,  
13 the Company matches employees’ contributions up to 3% of base pay.  
14 Employees who are not participants in the Pension Plan are eligible for the  
15 enhanced features of the Plan where the Company both matches employees’  
16 contributions up to 6% of base pay and makes a 401(k) contribution equal to 4%  
17 of an employee’s base pay.

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

19 A. The purpose of the adjustment is to update the Company’s 401(k) costs to reflect  
20 the effect of the wage increases that took effect in 2017 and that are projected to

1 take effect in 2018. As shown on Schedule RevReq 3-10, the total 401(k) costs  
2 adjustment increases test year expense by \$21,621.

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

4 A. The 401(k) pro forma costs were determined by multiplying the test year 401(k)  
5 expense by the 2017 average pay rate increase. To that amount a projected 2018  
6 pay rate increase was added. The resulting pro forma costs for 401(k) were then  
7 reduced by the amount chargeable to construction to determine the pro forma  
8 O&M expense. The test year O&M 401(k) cost was then deducted to derive the  
9 O&M 401(k) adjustment of \$5,279.

10 **Q. Please describe the adjustment to the Unitil Service 401(k).**

11 A. The Unitil Service cost adjustment for 401(k) is determined in a similar manner  
12 as the adjustment to Northern as shown on RevReq 3-11. First the test year  
13 401(k) costs apportioned to Northern's New Hampshire division are determined.  
14 Those costs are then increase by the 2017 average pay rate increase. To that  
15 amount, a projected 2018 pay rate increase was added. The pro forma costs were  
16 reduced by the amount chargeable to capital to derive the pro formed O&M  
17 401(k) expense of \$198,472. The test year O&M 401(k) was then deducted to  
18 derive the O&M 401(k) increase of \$16,342.

19 **VIII. CONCLUSION**

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

21 A. Yes, it does.