Request No. AG-5-23 (Gas)
Please provide a complete and detailed description of each self-insured procedure that UNITIL has in effect. For each, please provide (but do not limit the response to) the following information:

(1) a description of the nature of the risks being insured;
(2) a year 200 and year 2001 accounting of the self-insurance plan costs including the year beginning and ending reserve balance and an itemization of the debits and the credits to the reserve during the year as well as a five-year history of the debits and credits to that reserve; and
(3) a complete and detailed description for the methodology used to determine the annual year insurance expense including all calculation, formulas, assumptions, and workpapers.

Response:
The Company self-insures two types of risks: A) medical insurance and B) general liability insurance.

A) <u>Medical Insurance</u>:

1) The Company began self-insuring its employee medical insurance plan starting 1/1/2001. The first $125,000 in medical claims for each family unit are self-insured by the Company; claims over $125,000 per family are covered by reinsurance. In addition, if total claims for the year for the entire Unitil plan exceed 125% of expected claims, then all claims above 125% of expected claims are also paid by the reinsurer.

2) Unitil began its medical self-insurance plan in 2001. Prior to this, health insurance costs directly hit the expense accounts, therefore there will be no history for five years. Of the $1,055,243 in 2001 Unitil Service plan costs, 40% ($422,097) were billed to Fitchburg. Using the gas and electric splits according to the ratio of total salaries, $182,008 was billed to the gas division. This amount has been itemized on Attachment AG 5-23 (Gas), part A. A detailed listing of 2001 activity in the reserve account is also included on Attachment AG 5-23 (Gas), part B. The reserve account tracks three components in the recording of medical insurance. They are as follows:
   (a) USC Corp Policy True up – please refer to 3b below
   (b) Excess Claims Experience – please refer to 3b below
   (c) Incurred But Not Recorded (IBNR) – please refer to 3c below

3) There are five components that Unitil tracks in the recording of medical insurance expense. These are listed below:
   (a) Unitil Service Corp makes weekly estimated claims payments to Anthem Blue Cross Blue Shield (BCBS). Although the payment is made on behalf of

all the Unitil companies, it is allocated to each of the subsidiaries according to headcount and type of insurance (i.e. single, family).

(b) On a monthly basis, BCBS sends Unitil a claims settlement report, which lists out the actual claims for each company. The trueup amount is recorded in the reserve account on Unitil Service Corp's books. (See Attachment AG 5-23 (Gas), part B(a).) During September 2001, an analysis was performed on the reserve account. The reserve account had a debit balance. This meant the actual claims were higher than the estimated payments, and therefore the expense for each company needed to be charged to each affiliate. The same allocation was used as the estimated claims payments. (See Attachment AG 5-23 (Gas), part B(b).)

(c) Unitil calculates monthly an amount representing the two month lag in insurance claims, referred to as IBNR. The lag during 2001 was for the months of November and December. The majority of claims for these months were not processed until 2002. (See Attachment AG 5-23 (Gas), part B(c).)

(d) USC pays a monthly administrative fee that gets allocated based on affiliate headcount and type of policy/coverage. USC also pays for a Stop Loss premium to limit claims exposure. Please refer to the limits identified in item 1 above. This cost is also allocated to the affiliate companies based on headcount and type of policy/coverage.

(e) Total medical insurance expense differs from the cost of the policy as employees contribute towards a portion of the premium through payroll deductions. Payroll deductions are recorded in their own expense account. The combination of these two accounts total the true cost of medical insurance.

B) General Liability Insurance

1) The Company self-insures the first $200,000 of each general liability claim. Claims over $200, 000 are covered by an Excess Liability Insurance Policy. This policy covers all general liability risks or exposures that result from normal utility business operations. Unitil Service Corp administers this program.

2) Attachment AG 7-23 (Gas), part C, summaries the General Liability Self Insurance expense for USC. As with the medical insurance, the expense is then billed to FGE and is split between the gas and electric divisions. The detail was not available in the general ledger system for the amounts related to general liability insurance for the years 1997 and 1998.

Person Responsible: Mark H. Collin

A.) MEDICAL SELF INSURANCE PLAN COSTS USC (Gas)

	2001	BILLED TO FGE	FGE GAS
(a) Estimated Claims Payments	781,828	312,731	134,850
(b) Excess Claim Experience			-
(See event two below)	42,795	17,118	7,381
(c) Incurred But Not Recorded Costs			-
(See event three below)	107,807	43,123	18,595
(d) Admin and Stop Loss	122,813	49,125	21,183
Total Self-Insurance Plan Costs	1,055,243	422,097	182,008

B.) MEDICAL SELF-INSURANCE RESERVE ACCOUNT DETAIL USC

	USC HEALTH INSURANCE RESERVE ACCOUNT			
	Debits	Credits		
Jan 1, 2001 Beginning Balance	0			
(a) USC Corp policy trueup				
January		138,076		
February	32,492			
March	29,887			
April		1,541		
May	59,279			
June	23,155			
July	115,218			
August		38,718		
September	11,785			
October	12,362		USC PORTION	
(b) Expensing trueup balance				
September entry to expense settlement balance		20,424	8,258	
October entry to expense settlement balance		27,232	11,011	
November entry to expense settlement balance		56,849	22,986	
December entry to expense settlement balance		1,337	541	42,795
(c) Record "Incurred But Not Recorded" Expenses				
September		66,658	26,952	
October		66,658	26,952	
November		66,658	26,952	
November (new IBNR amt sent by BCBS)	26,481		0	
December		66,658	26,952	107,807
Reserve Ending Balance		240,152	150,603	

This Balance is equal to the BCBS IBNR estimate.

C.) Total USC General Liability Self-Insurance Expense

	1997	1998	1999	2000	2001
Total General Liability Expense	N/A	N/A	17,068	16,661	15,418
Amount billed to FGE	N/A	N/A	7,510	6,831	6,167
FGE expense related to Electric	N/A	N/A	3,205.98	3,207.16	2,659.30