

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

July 13, 2009 - 1:34 p.m.  
Concord, New Hampshire

NHPUC JUL 24 '09 PM 3:42

RE: DG 09-095  
ENERGYNORTH NATURAL GAS, INC., D/B/A  
NATIONAL GRID NH: 2009 Annual Cast  
Cast Iron/Bare Steel Main Replacement  
Program.

PRESENT: Chairman Thomas B. Getz, Presiding  
Commissioner Clifton C. Below

Sandy Deno, Clerk

APPEARANCES: Reptg. EnergyNorth Natural Gas, Inc.,  
d/b/a National Grid NH:  
Thomas P. O'Neill, Esq.

Reptg. PUC Staff:  
Matthew J. Fossum, Esq.  
Edward N. Damon, Esq.

Court Reporter: Steven E. Patnaude, LCR No. 52

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JAMES HUGHES (Sworn in at Page 18)

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## P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good afternoon, everyone. We'll open the hearing in docket DG 09-095. On May 18, 2009, National Grid New Hampshire submitted its Fiscal Year 2009 Annual Cast Iron/Bare Steel Main Replacement Program Results and Reconciliation filing. And, on May 19th, it filed a supplemental report. An order of notice was issued on May 21 setting the hearing for this afternoon.

Can we take appearances please.

MR. O'NEILL: Good morning, Mr. Chairman and Commissioner Below. Thomas P. O'Neill, Senior Counsel, on behalf of National Grid NH, 40 Sylvan Road, Waltham, Massachusetts.

CHAIRMAN GETZ: Good afternoon.

CMSR. BELOW: Good afternoon.

MR. FOSSUM: And, good afternoon, Commissioners. Matthew Fossum, on behalf of Staff of the Commission. With me today is Randy Knepper, Stephen Frink, and Edward Damon.

CHAIRMAN GETZ: Good afternoon.

CMSR. BELOW: Good afternoon.

CHAIRMAN GETZ: Well, I'll note for the record that the affidavit of publication has been filed.

1 And, Mr. O'Neill, are you ready to proceed?

2 MR. O'NEILL: Yes. I'd call Michelle  
3 Roach and William Richer to the stand as a panel. And,  
4 while they're getting settled, I would note for the record  
5 that there are three exhibits that we intend to have  
6 marked, and I could premark them.

7 CHAIRMAN GETZ: Okay. Please do.

8 MR. O'NEILL: I have copies for the  
9 Bench as well, if you need them.

10 CHAIRMAN GETZ: Well, it depends, if you  
11 have anything in addition to what has already been filed.

12 MR. O'NEILL: I'm not sure I do. The  
13 Exhibit 1 would be the Company's May 19th, 2009  
14 supplemental filing and report.

15 CHAIRMAN GETZ: Okay. That will be so  
16 marked as "Exhibit 1".

17 (The document, as described, was  
18 herewith marked as **Exhibit 1** for  
19 identification.)

20 MR. O'NEILL: Exhibit 2 would be the  
21 July 8th, 2009 Settlement Agreement in this proceeding.

22 CHAIRMAN GETZ: Okay. That will be so  
23 marked, and we have that.

24 (The document, as described, was

[WITNESS PANEL: Roach|Richer]

1 herewith marked as **Exhibit 2** for  
2 identification.)

3 MR. O'NEILL: And, Exhibit 3 would be an  
4 analysis of eight locations that was prepared by the  
5 Company in accordance with the Settlement.

6 CHAIRMAN GETZ: Okay.

7 (The document, as described, was  
8 herewith marked as **Exhibit 3** or  
9 identification.)

10 CHAIRMAN GETZ: Well, why don't you give  
11 us the whole package, because I'm not sure that we have  
12 everything.

13 (Whereupon *Michelle Roach* and  
14 *William Richer* was duly sworn and  
15 cautioned by the Court Reporter.)

16 CHAIRMAN GETZ: Please proceed.

17 MICHELLE ROACH, SWORN

18 WILLIAM RICHER, SWORN

19 DIRECT EXAMINATION

20 BY MR. O'NEILL:

21 Q. I'll start with Ms. Roach. Could you state your name  
22 and business address for the record please.

23 A. (Roach) Michelle Roach, 40 Sylvan Road, Waltham, Mass.

24 Q. And, by whom are you employed?

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[WITNESS PANEL: Roach|Richer]

1 A. (Roach) National Grid.

2 Q. And, in what capacity?

3 A. (Roach) I am a Program Manager in the Construction  
4 Group.

5 Q. And, are you familiar with the Cast Iron/Bare Steel  
6 Replacement Program, otherwise known as the "CIBS",  
7 C-I-B-S, Program for National Grid NH?

8 A. (Roach) Yes, I am.

9 Q. And, what is your role with regards to that program?

10 A. (Roach) As the Program Manager, I work with our  
11 Engineering Group to get all the work packages out to  
12 the construction crews and track the costs throughout  
13 the year, and ensure that we're staying within budget,  
14 and look for process improvements to try to reduce unit  
15 costs to the program.

16 Q. Thank you. And, can you briefly describe how the  
17 program works?

18 A. (Roach) Yes. Through the National Grid/KeySpan merger,  
19 there was a decision made that the Company could file  
20 for incremental rates over the \$500,000 historical base  
21 spend that the Company typically spent in New  
22 Hampshire. So, we meet with the -- in January of each  
23 year we propose a program to the Staff, and we review  
24 with them the candidates on the list. After reviewing

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[WITNESS PANEL: Roach|Richer]

1 the list and coming to a decision of a rate that they  
2 feel and the Company feels is adequate, we approve the  
3 program and submit the final plan. Throughout the year  
4 we work the plan, and, at the end of the year we then  
5 submit the final plan with the costs associated, and  
6 again review with the Staff to go over what they feel  
7 fell within -- make sure everything fell within the  
8 plan, and we file the final plan at the end of the  
9 year.

10 Q. Thank you. And, did the Company and Staff follow the  
11 procedure that you outlined for fiscal year 2009?

12 A. (Roach) Yes, we did.

13 Q. And, are you familiar with the Settlement that has been  
14 marked as "Exhibit 2" in this proceeding?

15 A. (Roach) Yes, I am.

16 Q. And, do you believe that that Settlement is fair and  
17 equitable and in the best interests of customers?

18 A. (Roach) Yes, I do.

19 Q. If I could direct your attention to Section 2 of the  
20 Settlement, there's some requirements in there for some  
21 testing on -- at certain locations prior to today's  
22 hearing, is that correct?

23 A. (Roach) Yes.

24 Q. And, has that testing been completed?

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[WITNESS PANEL: Roach|Richer]

1 A. (Roach) Yes, it has.

2 Q. And, have the results been presented to Staff?

3 A. (Roach) Yes, they have.

4 Q. And, are those results what's the analysis that's been  
5 marked as "Exhibit 3"?

6 A. (Roach) Yes, it is.

7 MR. O'NEILL: I have no more questions  
8 for Ms. Roach.

9 BY MR. O'NEILL:

10 Q. Mr. Richer, could you state your name and business  
11 address please.

12 A. (Richer) Yes. William Richer, 40 Sylvan Road, --

13 Q. And, by -- oh, I'm sorry.

14 A. (Richer) -- Waltham, Massachusetts.

15 Q. And, by whom are you employed?

16 A. (Richer) I'm employed by National Grid.

17 Q. And, in what capacity?

18 A. (Richer) I'm the Director of Gas Revenue Requirements.

19 Q. And, are you familiar with the Cast Iron/Bare Steel  
20 Replacement Program for National Grid New Hampshire?

21 A. (Richer) Yes, I am.

22 Q. And, what is your role with regards to that program?

23 A. (Richer) I'm responsible for overseeing the preparation  
24 of the revenue requirement.

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[WITNESS PANEL: Roach|Richer]

1 Q. Okay. And, is that revenue requirement that you just  
2 referred to, is that the analysis that's marked as  
3 "Exhibit C" to the Settlement that's "Exhibit 2" in  
4 this proceeding?

5 A. (Richer) That is correct.

6 Q. Okay. And, that revenue requirement -- so, that  
7 Exhibit C to the Settlement, that was an analysis that  
8 was prepared by you or under your direction and  
9 control, is that correct?

10 A. (Richer) That's correct.

11 Q. Was that analysis generally consistent with the  
12 illustrative example that was attached to the  
13 Settlement that was approved by the Commission in the  
14 merger proceeding docket, DG 06-107?

15 A. (Richer) Yes, it is consistent, but there are some  
16 differences that I can describe.

17 Q. Would you please.

18 A. (Richer) Okay. First of all, what was in the  
19 Settlement was a multi-year presentation. So, this  
20 reflects the one year of the program. It has been  
21 updated to reflect actual spending. And, we also broke  
22 out mains from services, that was not broken out in the  
23 previous presentation. We also updated the book  
24 depreciation rate, and also updated the tax

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[WITNESS PANEL: Roach|Richer]

1 depreciation rate. And, with regard to the tax  
2 depreciation rate, the rate, we're using the 15 year  
3 MACRS tax depreciation rate. And, under the Energy  
4 Policy Act of 2005, additions of the nature, in this  
5 particular program, additions that occur between the  
6 period of April 11th, '05 through December 31st, 2010  
7 are eligible for the 15 year MACRS depreciation rate.  
8 Normally, this type of plant is eligible for 20 year  
9 depreciation.

10 Another change is bonus depreciation.  
11 We're allowed to depreciate 50 percent of the additions  
12 that occur in the current year. The bonus depreciation  
13 is the result of the Economic Stimulus Act of 2008.  
14 Another change is that we updated the property tax  
15 factor, the amount of property tax allocable to this  
16 particular program. And, we also updated the common  
17 equity rate, the allowed return that was allowed in  
18 docket DG 08-009. And, those were all of the changes.

19 Q. And, could you just, with those changes, could you just  
20 explain what the results of your analysis are?

21 A. (Richer) Yes. It results in an annual revenue  
22 requirement of \$262,185.

23 MR. O'NEILL: Thank you. I have no more  
24 questions.

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[WITNESS PANEL: Roach|Richer]

1 CHAIRMAN GETZ: Mr. Fossum.

2 MR. FOSSUM: Thank you.

3 CROSS-EXAMINATION

4 BY MR. FOSSUM:

5 Q. I guess I'll begin with Ms. Roach, since you seem more  
6 familiar with the program itself. Will you agree that,  
7 as far as the Company is concerned, this is an  
8 essential or a very important program?

9 A. (Roach) Yes, I would.

10 Q. And, in regards to the program itself, just to clarify,  
11 I believe you said on direct that you were permitted  
12 recovery over \$500,000 that you would normally spend.  
13 Is that consistent, I guess, with the Merger Settlement  
14 Agreement required -- I'm sorry, I'm confusing myself  
15 here. Is it correct that the Merger Settlement  
16 Agreement actually requires a minimum of 500,000, as  
17 opposed to just a normal amount of 500,000? Is that an  
18 accurate characterization?

19 A. (Roach) I'm not sure exactly what the --

20 [Court reporter interruption]

21 BY THE WITNESS:

22 A. (Roach) I'm not exactly sure of the exact wording in  
23 the Agreement.

24 BY MR. FOSSUM:

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[WITNESS PANEL: Roach|Richer]

1 Q. Okay. Regarding the -- for Mr. Richer, regarding the  
2 "bonus depreciation" you spoke about, has the Company  
3 increased or changed in any way its discretionary  
4 spending under the program to take advantage of that  
5 depreciation in any way?

6 A. (Richer) Yes. I'm not aware of any changes to what's  
7 been planned as a result of the bonus depreciation  
8 provisions.

9 Q. Okay. And, in regard to the -- going back to what you  
10 had spoke about regarding the revenue requirement, is  
11 one of the changes involved there, between the original  
12 filing and the updated filing, the use of the approved  
13 capital structure of the Company?

14 A. (Richer) Yes. Yes. We used the new allowed common  
15 equity return of 9.54 percent for the calculation.

16 Q. Thank you. Now, regarding, for I guess either of you,  
17 regarding any recoverable amounts that the Commission  
18 may allow, is there -- will there be an impact on the  
19 rate design to recover those amounts?

20 A. (Richer) There will be no change in the rate design.

21 Q. I'm not sure to whom exactly to direct this, so I guess  
22 I'll direct it to you both. If you could look at  
23 Exhibit 1, the May 19 supplemental filing. Do you have  
24 that?

[WITNESS PANEL: Roach|Richer]

1 A. (Richer) We don't have that in front of us.

2 A. (Roach) I do.

3 (Atty. O'Neill handing document to the  
4 witnesses.)

5 MR. FOSSUM: Thank you. I apologize.

6 BY MR. FOSSUM:

7 Q. And, on Page 3 of that filing, the first sentence --  
8 actually two sentences of Section 3, indicate that the  
9 proposed plan provided for the replacement of just over  
10 4 miles of pipe, at an estimated cost of just over  
11 3.6 million, but that actual spending was about two and  
12 a half million for just under 3 miles. What was the  
13 reason for that difference?

14 A. (Roach) We actually had five projects that we had to  
15 defer until the 2009/10 Program. And, that was due to  
16 the fact, one of the projects we actually started, and  
17 we didn't get to finish just with weather and the city  
18 cut us off from working in the streets. But we  
19 finished that up this year. And, the other four  
20 projects, we applied for permits, but it got late in  
21 the year so the cities did not issue us permits for  
22 those projects.

23 Q. So, has the Company reapplied for permits for those  
24 projects or --

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[WITNESS PANEL: Roach|Richer]

1 A. (Roach) Yes. Those projects have been rolled over into  
2 the '09/10 Program. And, the one that we didn't  
3 complete last year has been completed. And, out of the  
4 remaining four, we have reapplied for projects. One of  
5 them is actually in progress as we speak.

6 Q. Okay. And, has the Company taken any steps to be sure  
7 that it will complete the proposed projects for fiscal  
8 year 2010?

9 A. (Roach) Yes, we have.

10 Q. Do you happen to know what those steps might be or --

11 A. (Roach) Yes. We actually -- last year we got a little  
12 bit of a late start in getting the work out to the  
13 field, so we ensured that we got the work out day one  
14 this year. And, we hold weekly calls with the  
15 supervisors in construction to discuss the status of  
16 the projects and ensure that we're staying on plan.

17 Q. Okay. Your filing -- the Company's filing indicates  
18 that it replaced approximately 3 miles of mains and  
19 services in fiscal year 2009, but actually replaced  
20 more as a result of nondiscretionary spending. Do you  
21 know how much cast iron/bare steel was replaced through  
22 nondiscretionary spending over fiscal year 2009?

23 A. (Roach) Yes.

24 Q. And, could you give us -- tell us the cost and/or why

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[WITNESS PANEL: Roach|Richer]

1 it was replaced?

2 A. (Roach) Uh-huh. We replaced approximately an  
3 additional 13,000 miles [feet?] of cast iron and bare  
4 steel, at a cost of approximately 2.3 million. And,  
5 that was -- most of those projects or all of those  
6 projects were related to city/state public works  
7 projects, as well as encroachments.

8 CHAIRMAN GETZ: It's probably feet.

9 BY MR. FOSSUM:

10 Q. Yes, just to clarify, did you --

11 A. (Roach) Did I say "miles"? Oh, I apologize. It's  
12 "13,000 feet".

13 Q. Okay. Impressive cost/benefit ratio. Now, has the  
14 Company included in its filing a schedule showing the  
15 total cast iron and bare steel mains at the start of  
16 the fiscal year, and those replaced throughout the  
17 fiscal year, with the miles and costs broken down?

18 A. (Roach) I do not believe it's part of the filing. But  
19 we have gone over that with the Staff in some of the  
20 meetings that we've held.

21 Q. And, is there like, you know, a record request that  
22 such a schedule be provided?

23 A. (Roach) Yes, we could provide that.

24 Q. Thank you.

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[WITNESS PANEL: Roach|Richer]

1 CHAIRMAN GETZ: Okay. We will reserve  
2 Exhibit Number 4 for the record response.

3 (Exhibit 4 reserved)

4 MR. FOSSUM: Thank you.

5 BY MR. FOSSUM:

6 Q. And, is that schedule, is that something the Company  
7 would be willing to provide in future filings?

8 A. (Roach) Yes, we could do that.

9 MR. FOSSUM: Okay. Thank you. I have  
10 nothing further.

11 CMSR. BELOW: Oh, I do have a question.

12 BY CMSR. BELOW:

13 Q. On this Exhibit 3, for each of the sample analyses, it  
14 references "testing for microbiological acid producing  
15 and sulfate reducing bacteria", but in each case it  
16 talks about a "waiting period" I guess to incubate the  
17 bacteria, and there's no results on what was found.  
18 And, I was just curious if you know what the results of  
19 those tests were?

20 A. (Roach) I actually didn't perform the test myself. But  
21 Mr. Hughes is in the room, who actually did the  
22 testing, might be able to answer that question.

23 CHAIRMAN GETZ: Why don't we swear  
24 Mr. Hughes in, and get an answer to that. You can stay

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[WITNESS PANEL: Roach|Richer]

1 right there. I assume it's just going to be one question.

2 (Whereupon **James Hughes** was duly sworn  
3 and cautioned by the Court Reporter.)

4 **JAMES HUGHES, SWORN**

5 CHAIRMAN GETZ: And, just state your  
6 full name.

7 WITNESS HUGHES: My name is James  
8 Hughes. I work for National Grid. The question that you  
9 posed, it requires another ten days to tab the results of  
10 the testing. For the first bacteria that you referred to  
11 is a ten day period, which would be tomorrow would be the  
12 day for that. The second bacteria test requires another  
13 ten days on top of that.

14 CMSR. BELOW: Oh. Okay. So, you only  
15 started the tests quite recently?

16 WITNESS HUGHES: Yes.

17 CMSR. BELOW: Oh, I see. On July 1st,  
18 for instance. Okay. Thank you.

19 WITNESS HUGHES: You're welcome.

20 CHAIRMAN GETZ: Okay. No other  
21 questions from the Bench. Do you have anything in the  
22 nature of redirect, Mr. O'Neill?

23 MR. O'NEILL: I do not.

24 CHAIRMAN GETZ: Okay. Then, the

[WITNESS: Knepper]

1 witnesses are excused. Thank you. Mr. Fossum, is Staff  
2 going to have a witness or --

3 MR. FOSSUM: Yes, we will have Randy  
4 Knepper testify.

5 (Whereupon *Randall Knepper* was duly  
6 sworn and cautioned by the Court  
7 Reporter.)

8 WITNESS KNEPPER: Go ahead.

9 RANDALL KNEPPER, SWORN

10 DIRECT EXAMINATION

11 BY MR. FOSSUM:

12 Q. And, if we could begin. Could you state your name for  
13 the record.

14 A. My name is Randy Knepper.

15 Q. And, by whom are you employed?

16 A. New Hampshire Public Utilities Commission.

17 Q. And, in what position?

18 A. I am the Director of Safety.

19 Q. Okay. Now, you are familiar with the CIBS Program that  
20 is the subject of this docket?

21 A. Intimately.

22 Q. Other than what Ms. Roach had explained previously,  
23 could you explain your understanding of the CIBS  
24 Program and its elements?

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[WITNESS: Knepper]

1 A. Yes, I don't want to repeat some of the things that  
2 Michelle said, but I'll try to recap some of it. In  
3 2008, the Staff and National Grid embarked on an  
4 accelerated replacement program of the most worn pipes  
5 in New Hampshire that are prone to leaks and other  
6 failures. That was as a result of the July 2007 final  
7 order in the merger docket of KeySpan/National Grid.  
8 This is an important program. It's been become known  
9 as our "CIBS" or "Cast Iron/Bare Steel Replacement  
10 Program".

11 The New Hampshire Cast Iron/Bare Steel  
12 Replacement Program is quite specific to New Hampshire,  
13 and is uniquely customized to the distribution systems  
14 found within municipalities here and the types of mains  
15 and services found in New Hampshire. It contains many  
16 of the same elements and could be considered a  
17 precursor to a more formal Distribution Integrity  
18 Management Program. Distribution Management Programs  
19 are not yet required by local distribution companies,  
20 such as National Grid in New Hampshire, nor nationally  
21 yet. But sometime in the near future they probably  
22 will be. The federal government has issued a proposed  
23 rulemaking last year, in Summer 2008, and the final  
24 rulemaking will be coming out this fall. So,

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[WITNESS: Knepper]

1 implementation of that will probably be 2010 or 2011.

2 The other thing that you should note is  
3 Bare Steel Replacement Programs are not new to New  
4 Hampshire. We've had other operators that have had  
5 them in place since 1990. And, so, I would  
6 characterize the Cast Iron/Bare Steel Replacement  
7 Program as one in which the Staff and National Grid, we  
8 were heavily involved in reviewing and establishing the  
9 criteria for identifying the worst of the leak-prone  
10 pipes, the selection for inclusion within the program,  
11 some subsequent prioritization and monitoring of  
12 activities.

13 Q. Now, you mentioned that this program was "an important  
14 program". Are there specific reasons why you consider  
15 it to be an important program?

16 A. Well, I guess you have to kind of go back to the order,  
17 what's the reason for it and what makes it unique. We  
18 saw the beginning of trending towards more leaks  
19 occurring in New Hampshire, and the Staff of the Safety  
20 Division became concerned about that. And, we were  
21 concerned that the state's largest gas operator,  
22 National Grid, was replacing older leak-prone pipes at  
23 a rate that was not commensurate with some of the other  
24 operators within the state. And, we knew that they

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[WITNESS: Knepper]

1        were relying heavily on municipal projects, you know,  
2        to coordinate replacement, being able to take advantage  
3        of cost savings. But we also foresaw a decrease in  
4        those municipal spending occurring because  
5        municipalities were starting to experience worsening  
6        economies and pressures on municipal budgets. So, we  
7        also knew that, if you look at New Hampshire's leak and  
8        worn pipe inventory, compared to those of larger  
9        states, such as New Hampshire [New York?] and  
10       Massachusetts, that a lot of focus would go to those  
11       areas. And, so, we felt that those leakage rates would  
12       have to increase to kind of get to a point where some  
13       of the capital expenditures would increase to a level  
14       that was done in other states. And, we didn't want to  
15       have to wait for that to happen. We didn't think that  
16       was acceptable. So, there in that order the National  
17       Grid proposed the CIBS program, and we thought that was  
18       a good way of accomplishing the tasks.

19                One of the things that makes it unique  
20       is National Grid has procedures already and policies  
21       within their company concerning replacement. But there  
22       was a lot of things that we didn't think that were  
23       pertinent to the situation in the distribution systems  
24       that we had here, they were kind of done on a large

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[WITNESS: Knepper]

1 umbrella or company-wide basis, and we wanted something  
2 very, very specific to New Hampshire. So, the New  
3 Hampshire CIBS Program is unique, and I think they  
4 would also agree that it's unique within their own.  
5 I'm not so sure it's something that they may take  
6 beyond the state here.

7 Q. Thank you. Now, --

8 CHAIRMAN GETZ: Well, actually, just one  
9 thing for the record. You mentioned "other larger states,  
10 including New Hampshire and Massachusetts". I assume you  
11 meant "New York and Massachusetts"?

12 WITNESS KNEPPER: Yes, let's get rid of  
13 "New Hampshire" and put in "New York". They have a lot  
14 more cast iron and bare steel in those states  
15 proportionally.

16 MR. FOSSUM: Thank you for the  
17 clarification.

18 BY MR. FOSSUM:

19 Q. Now, this was the initial year of the Program, correct?

20 A. That's correct.

21 Q. And, in your opinion, how well did it function in its  
22 first year? Did it achieve its intended purposes?

23 A. I'd say, for the most part. We had some growing pains.  
24 You know, it was done on a collaborative effort, I

[WITNESS: Knepper]

1 would say, between the Staff and National Grid. You  
2 know, we've kind of set high expectations and goals for  
3 the LDCs here. And, you know, we view this as a major  
4 opportunity to have a replacement program, with the  
5 incentives that are provided in the Cast Iron/Bare  
6 Steel Program. It removes that lead/lag recovery  
7 issues associated that a lot of companies consider when  
8 they're making capital investments.

9 So, you know, given that, we kind of got  
10 off to a little bit of a rough start, things were a  
11 little bit delayed in getting things going, delays in  
12 getting some things filed, kind of had to kind of  
13 regroup, get some of the expectations and make clear  
14 what we were looking for as a Staff. And, I think,  
15 eventually, National Grid was able to come up with a  
16 program that was unique and met some of our  
17 expectations.

18 I guess some other characteristics, I  
19 would say that we had to make sure that, with any  
20 program, you have to discern what's part of the program  
21 and what's not part of the program. And, it takes a  
22 lot of monitoring and effort to make sure that things  
23 aren't getting included in it that might otherwise.  
24 And, so, that took more effort than we thought.

{DG 09-095} {07-13-09}



[WITNESS: Knepper]

1           One of the things that we do differently  
2           here, we don't have a lot of confidence in their models  
3           of doing some of the leakage rates, which is kind of  
4           required that they use as a basis in other states.  
5           And, so, we really wanted to get a good feedback loop  
6           as to the ones that were selected, and we wanted actual  
7           field tests done in the field. We thought that was  
8           worthwhile. Bring them back to the lab, photograph  
9           them, run some tests, let's find out what the corrosion  
10          rates really are, because we think that's the best way  
11          of really determining "Are we spending the money  
12          effectively or not? Are we going too fast? Are we  
13          going too slow?" And, so, you know, some of the  
14          results of those have just come in this year. It's a  
15          little too early to monitor or to say if it was  
16          successful or not. I think it's going to take a little  
17          -- a couple years of trending. But those were some of  
18          the characteristics that we had.

19                 I was pleased that we were able to do  
20                 this in a pretty efficient manner. I think, if you  
21                 look at one of the exhibits here, I believe it says  
22                 it's roughly in the \$2.00 to \$3.00 range per customer  
23                 per year. I think that's pretty acceptable. We were  
24                 looking for something less than \$5.00. So, that's

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[WITNESS: Knepper]

1 good. A little disappointed we didn't get the projects  
2 done, the five projects that Michelle had talked about.  
3 One of them was pretty much done, but we didn't want to  
4 include the costs until all paving costs were finalized  
5 in the spring. I'm not sure if all of them they can do  
6 this year. I think one of them might be permanently  
7 closed, because there might be a moratorium on the  
8 road. I'd kind of characterize it, the reason that  
9 those didn't get done were some internal delays within  
10 National Grid. I think this year, as Michelle had  
11 alluded to, they're monitoring it, they got their  
12 paperwork off, they got -- some of the earlier bumps  
13 that they experienced aren't going to happen in 2009.

14 Q. Now, going back briefly, you had mentioned the testing  
15 requirement?

16 A. Yes.

17 Q. And, was all of the testing done that was required or  
18 expected during this initial year?

19 A. Yes. We required testing done for bare steel, trying  
20 to emphasize that, I guess, to National Grid that the  
21 testing is very important. That's why this last report  
22 that they just put in as Exhibit 3, I think it's dated  
23 July 9th, was done, because the actual work was done  
24 throughout last summer, in 2008, and we wanted that

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[WITNESS: Knepper]

1 testing to be included. We thought that was  
2 significant enough, to make sure that was important  
3 enough, while you're there, go back. And, so, there's  
4 a provision in the Settlement Agreement to, if you  
5 don't do it, we had to kind of put that in there to  
6 make sure that that got done. Sometimes the language  
7 of disincentives to get those things accomplished.  
8 And, that's why, Mr. Below, we -- you didn't see the  
9 microbiological results yet. I do think those are  
10 important. We did find one of the samples, there's a  
11 previous report that listed the six that they had done  
12 before, one of them did have that kind of corrosion.  
13 So, it's important to see those things.

14 Q. Now, so far in the program, is Staff satisfied with the  
15 proposed level of discretionary spending by the  
16 Company?

17 A. Well, after one year, yes. Yes. I think they have  
18 done roughly 26 projects. And, it was in the \$2 to  
19 \$3 million range. I think that's significantly more  
20 than what they were doing in previous years. You know,  
21 I believe it was even less than \$500,000. So, now we  
22 think it's kind of ramped up a little bit to what we  
23 would expect of replacing that. Because, you know,  
24 these pipes aren't getting any younger, they're just

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[WITNESS: Knepper]

1 getting more worn. And, the only thing that happens is  
2 problems. And, I think, operationally, costs are going  
3 to go up, surveys are going to go up, repairs cost  
4 more. You've got to be a little bit proactive, and  
5 preventive maintenance is a good way of running these  
6 programs.

7 Q. And, so, if the Company, for whatever reason, elected  
8 not to spend anything above the base amount, what would  
9 be the Staff's response do you think?

10 A. It would be pretty disappointed. But, at the same  
11 time, I think a \$10 million program is a little bit out  
12 of line for New Hampshire customers as well. So,  
13 that's what we're trying to do. We're trying to gauge  
14 what is the best rate. So, I think we're off to a  
15 pretty good start. This isn't, you know, that's the  
16 problem is, you can model those things, there's a lot  
17 of assumptions that go in. But, until you actually  
18 replace it and see it and get a feel for it and start  
19 to trend it, will we have a better idea as to what the  
20 appropriate rate is.

21 You know, it's not something that I  
22 don't think the Staff, nor the Company, it's not an  
23 easy beast to conquer. You're always trying to stay  
24 ahead of it. You don't want to spend money too fast if

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1       there's good life in the pipe. But you always want to  
2       be on the safety side and reduce any hazards that are  
3       out there as well. So, we're comfortable with the  
4       levels that they have spent in 2008 and proposed for  
5       2009. And, beyond that, I don't know. We'll see.

6               MR. FOSSUM: Thank you. I have nothing  
7       further at this time.

8               CHAIRMAN GETZ: Mr. O'Neill?

9               MR. O'NEILL: Just a couple of quick  
10       follow-ups.

11                       CROSS-EXAMINATION

12       BY MR. O'NEILL:

13       Q.     With respect to that last point, in terms of the  
14       spending, you just mentioned at the end, but there is  
15       an agreed upon plan in place for next year, is that  
16       correct?

17       A.     Yes. Next year, it's actually a little bit more than  
18       this year, because some of the projects had got carried  
19       over, so that's going to bump up the number a little  
20       bit right there. And, we are -- we have looked at all  
21       the things that they propose. We go through these  
22       line-by-line. You know, those meetings that we have  
23       are probably long and detailed, but we want to make  
24       sure that, as a Staff, we're being wise with the

[WITNESS: Knepper]

1 dollars that we're spending and we're in agreement.

2 And, there are certain projects to be pushed off a

3 little further than they have proposed, but, overall,

4 we think it comes to something that we would have

5 selected as well.

6 Q. And, you expect those meetings to continue for the

7 balance of next year?

8 A. Yes, we had, I would say, Tom, we had quite a few

9 meetings last year, and we probably met four or five

10 times. My inspectors were out there on 14 of those 26

11 projects. So, a lot of monitoring, a lot of -- we were

12 very -- we wanted to make sure this year went pretty

13 well. I'm hoping that we can not have to put as much

14 effort into it, both parties. You've kind of got to go

15 through those speed bumps. We definitely went through

16 some of those last year.

17 MR. O'NEILL: Thanks. I have nothing

18 further.

19 CHAIRMAN GETZ: All right. And, there's

20 no questions from the Bench. So, you're excused. Thank

21 you, Mr. Knepper. Is there any objection to striking

22 identifications and admitting the exhibits into evidence?

23 (No verbal response)

24 CHAIRMAN GETZ: Hearing no objection,

1 they will be admitted into evidence. Is there anything  
2 else to address before we provide an opportunity for a  
3 closing?

4 (No verbal response)

5 CHAIRMAN GETZ: Hearing nothing, then,  
6 Mr. Fossum.

7 MR. FOSSUM: Thank you. Don't have much  
8 to say. Subject to the terms that we've agreed upon in  
9 the Settlement Agreement, Staff explored the rate  
10 adjustments with the Company through the CIBS Program.  
11 Through the first year there was some trouble with the  
12 Program. But, as we move forward, it looks like things  
13 may get ironed out. And, we're, as Mr. Knepper testified,  
14 looking forward to sort of stepping down Staff's presence,  
15 and hoping that the Company improves. This is an  
16 important program for providing safe and reliable service  
17 to the state.

18 And, other than that, Staff has reviewed  
19 the proposal and that's contained in the Settlement  
20 Agreement, and finds it reasonable and would recommend the  
21 Commission to approve it.

22 CHAIRMAN GETZ: Thank you. Mr. O'Neill.

23 MR. O'NEILL: Thank you. The Company  
24 would agree with the Staff that the Cast Iron/Bare Steel

1 is a very important program, and it does provide an  
2 opportunity for the Company to be proactive in its  
3 replacement of aging infrastructure, and get recovery of  
4 the dollars that it takes to do that on a timely basis.  
5 The Company views this also sort of as a really good  
6 working model of an opportunity for the Company and the  
7 Staff to work together on a collaborative basis, and go  
8 into the program in agreement as to exactly what, you  
9 know, what the proper scope of the program is and how the  
10 program should proceed along. And, that's an opportunity  
11 that we don't always get, and we do appreciate the ability  
12 to be able to work hand in hand with Staff on important  
13 safety issues like that.

14 We do recognize that there were a couple  
15 of speed bumps in getting the program up and running in  
16 the first year. We believe we have those ironed out. We  
17 think the second year will probably be quite a bit  
18 smoother. And, at this point, we would ask that the  
19 Commission approve the Settlement that's before it as  
20 being in the best interest of customers, and it would  
21 result in a base revenue increase -- base distribution  
22 delivery increase in the amount of \$262,185 that would  
23 take effect on August 1, 2009. Thank you.

24 CHAIRMAN GETZ: Okay. Then, thank you.



1 We will close the hearing and take the matter under  
2 advisement.

3 (Whereupon the hearing ended at 2:14  
4 p.m.)  
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