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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 25, 2014 - 1:35 p.m.
Concord, New Hampshire

NHPUC JUN30'14 PM 3:15

RE: DG 14-041
LIBERTY UTILITIES (ENERGYNORTH NATURAL
GAS) CORP. d/b/a LIBERTY UTILITIES:
*2014 Cast Iron/Bare Steel Replacement
Program Results.*

PRESENT: Chairman Amy L. Ignatius, Presiding
Commissioner Martin P. Honigberg

Sandy Deno, Clerk

APPEARANCES: Reptg. Liberty Utilities (EnergyNorth
Natural Gas) Corp. d/b/a Liberty Utilities:
Sarah B. Knowlton, Esq.

Reptg. PUC Staff:
Alexander F. Speidel, Esq.
Michael J. Sheehan, Esq.
Randall S. Knepper, Director/Safety Division
Stephen P. Frink, Asst. Dir./Gas & Water Div.
Robert J. Wyatt, Asst. Dir./Safety Division

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

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E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	2014 Cast Iron/Bare Steel Replacement Program Results filing, including the Joint Direct Testimony of Gwyn M. Cassetty & Richard G. MacDonald, with attachments, and the Direct Testimony of Mark G. Savoie, with attachments (05-15-14)	9
2	Staff Direct Testimony of Randall S. Knepper (06-23-14)	15
3	Staff Direct Testimony of Stephen P. Frink, including Attachment SPF-1 (06-17-14)	38

P R O C E E D I N G

1
2 CHAIRMAN IGNATIUS: I'd like to open the
3 hearing in Docket DG 14-041. This is the Liberty
4 Utilities EnergyNorth Natural Gas System's Cast Iron/Bare
5 Steel Replacement Program results for its fiscal year,
6 which runs April 1, 2013 through March 31, 2014. And,
7 there is a request from the Company for an increase in
8 base distribution rates for effect on July 1st, 2014. We
9 issued an order of notice on May 27th calling for a
10 hearing this afternoon.

11 I'd like to begin first with
12 appearances.

13 MS. KNOWLTON: Good afternoon,
14 Commissioners. My name is Sarah Knowlton. I'm here today
15 on behalf of Liberty Utilities (EnergyNorth Natural Gas)
16 Corp. And, with me today are the Company's three
17 witnesses: Mark Savoie, Richard MacDonald, and Gwyn
18 Cassetty. And, then at -- excuse me -- at counsel's table
19 is Christian Brouillard and Steve Mullen.

20 CHAIRMAN IGNATIUS: Good afternoon.

21 MR. SPEIDEL: Good afternoon,
22 Commissioners. Alexander Speidel, representing the Staff
23 of the Commission. I also have co-counsel Michael
24 Sheehan, at the other end of the table. And, with us we

1 have Stephen Frink, the Assistant Director of the Gas and
2 Water Division; Robert Wyatt, the Assistant Director of
3 the Safety Division; and Randall Knepper, the Director of
4 the Safety Division.

5 CHAIRMAN IGNATIUS: Good afternoon.
6 Welcome, everyone. The order of notice called for
7 petitions to intervene to be filed by today. And, there's
8 nothing in the file suggesting anyone is seeking
9 intervention. Is there anyone here who seeks to
10 intervene?

11 (No verbal response)

12 CHAIRMAN IGNATIUS: It appears there is
13 not. All right.

14 The plan for witnesses, do you -- were
15 you anticipating that all three would testify as a panel
16 or something other than that?

17 MS. KNOWLTON: Yes.

18 CHAIRMAN IGNATIUS: All right. And, is
19 that acceptable?

20 MR. SPEIDEL: Yes, it is acceptable.
21 And, after the Company presents its panel, Staff would
22 like to present a panel of Randy Knepper and Steve Frink.

23 CHAIRMAN IGNATIUS: And, they did not
24 prefile testimony, correct?

1 MR. SPEIDEL: They did actually prefile
2 testimony. Has it reached the Commissioners yet?

3 CMSR. HONIGBERG: Yes.

4 CHAIRMAN IGNATIUS: Let's keep that
5 singular. It didn't reach some of us.

6 MR. SPEIDEL: I could have a run-off
7 brought down to you, Chairman, if you'd like?

8 CHAIRMAN IGNATIUS: That would be
9 helpful.

10 MR. SPEIDEL: Okay. What I'll do is, I
11 would like to -- it's no problem if things roll forward
12 from the Company's end, while I go have a run-off made,
13 and I'll be right back.

14 MS. KNOWLTON: Actually, I do want to,
15 before we --

16 MR. SPEIDEL: Oh, we have extras.
17 That's great.

18 MS. KNOWLTON: -- we do that, I was
19 going to have -- ask the Company witnesses whether they
20 had any response to the testimony that was filed by the
21 Staff, if that's acceptable. So, I don't want to, you
22 know, if the Commissioners want or the Chair wants a
23 chance to look at the testimony before the Company
24 witnesses take the stand, then to do that.

[WITNESS PANEL: Cassetty~MacDonald~Savoie]

1 MR. SPEIDEL: Okay.

2 MS. KNOWLTON: We're happy to wait.

3 CHAIRMAN IGNATIUS: It's short
4 testimony. So, I think it makes more sense, I'm a quick
5 reader, that we go ahead, and while your witnesses are on
6 the stand, if they have any response, to go ahead and do
7 it there, rather than having to recall them.

8 MR. SPEIDEL: Yes. I have an extra copy
9 of Mr. Knepper's testimony. And, I can have this run off
10 in about 90 seconds. It's the short testimony of Mr.
11 Frink. So, I'll bring this up to the Bench, if I may?

12 CHAIRMAN IGNATIUS: Thank you.

13 (Atty. Speidel handing document to
14 Chairman Ignatius.)

15 CHAIRMAN IGNATIUS: Apologize for the
16 disruption. I think, if you want to seat your witnesses
17 while we're waiting for that to come back and begin the
18 preliminaries, that's perfectly fine. And, I'll also be
19 looking at what's been filed.

20 MS. KNOWLTON: Thank you. The Company
21 files -- excuse me -- the Company calls Gwyn Cassetty,
22 Richard MacDonald, and Mark Savoie to the stand.

23 (Whereupon **Gwyn M. Cassetty,**

24 **Richard G. MacDonald,** and **Mark G. Savoie**

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[WITNESS PANEL: Cassetty~MacDonald~Savoie]

1 were duly sworn by the Court Reporter.)

2 MS. KNOWLTON: Mr. Savoie, I'll start
3 with you, when you're ready.

4 WITNESS SAVOIE: I'm ready.

5 **GWYN M. CASSETTY, SWORN**

6 **RICHARD G. MacDONALD, SWORN**

7 **MARK G. SAVOIE, SWORN**

8 **DIRECT EXAMINATION**

9 BY MS. KNOWLTON:

10 Q. Would you please state your full name for the record.

11 A. (Savoie) My full name is Mark Savoie.

12 Q. By whom are you employed?

13 A. (Savoie) I'm employed by Liberty Energy Utilities New
14 Hampshire Corp.

15 Q. What is your position with the Company?

16 A. (Savoie) I'm a Utility Analyst.

17 Q. What do your job duties include?

18 A. (Savoie) My primary job responsibilities include
19 preparing the gas cost recovery projections for Liberty
20 and related reconciliations, administering the
21 Company's tariff, calculating the achieved rate of
22 return, and appearing as a witness on rate matters.

23 MS. KNOWLTON: Actually, Commissioners,
24 if I may, we propose to mark for identification as

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1 "Exhibit 1" the Company's May 15th, 2014 filing that's
2 Bates numbered 001 through 061.

3 (The document, as described, was
4 herewith marked as **Exhibit 1** for
5 identification.)

6 BY MS. KNOWLTON:

7 Q. Mr. Savoie, do you have before you a copy of what's
8 been marked for identification as "Exhibit 1"?

9 A. (Savoie) Yes.

10 Q. This contains the FY 2014 Cast Iron Bare Steel Program
11 Report, and the testimony of you, as well as Mr.
12 MacDonald and Ms. Cassetty. Was your testimony that's
13 contained in this exhibit prepared by you or under your
14 direction?

15 A. (Savoie) Yes.

16 Q. And, would you explain for the Commission what your
17 responsibility is for the CIBS docket or CIBS Program?

18 A. (Savoie) My main responsibility in this docket is to
19 explain the Company's revenue requirement calculation.

20 Q. Okay. If you would turn to the testimony that -- your
21 testimony, which begins on Bates Page 035. Do you have
22 any corrections to your testimony?

23 A. (Savoie) Yes. I have one, on Bates Page 039. On Line
24 19, there's a typo error. The "\$320,245" should be

1 "330,245".

2 Q. Does that change have -- does that change in that
3 number have any effect on the calculations you made for
4 the rates?

5 A. (Savoie) It does not.

6 Q. Okay. If I were to ask you the questions today that
7 are contained in your testimony, subject to this
8 correction, would your answers be the same?

9 A. (Savoie) Yes.

10 Q. Thank you. Ms. Cassetty, would you please state your
11 full name for the record.

12 A. (Cassetty) Gwyn Cassetty.

13 Q. By whom are you employed?

14 A. (Cassetty) I'm employed by Liberty Energy Utilities New
15 Hampshire Corp.

16 Q. What is your position with the Company?

17 A. (Cassetty) I'm the Construction Manager.

18 Q. What do your job duties include?

19 A. (Cassetty) I oversee the contractors who install our
20 gas pipe.

21 Q. Do you have any responsibilities relative to the CIBS
22 Program?

23 A. (Cassetty) I do. I oversee the execution of that and
24 track all the costs.

1 Q. Do you have Exhibit 1 in front of you?

2 A. (Cassetty) Yes. Yes, I do.

3 Q. Would you identify which portions of this exhibit you
4 were responsible for preparing or overseeing?

5 A. (Cassetty) It's Bates Page 033.

6 Q. Well, Exhibit 1 contains your prefiled testimony
7 beginning on Page 21. Did you have any responsibility
8 in preparing or overseeing the preparation of this
9 testimony?

10 A. (Cassetty) Yes.

11 Q. Okay. And, what about the FY 2014 Cast Iron Bare Steel
12 Program Report, did you have any involvement in the
13 preparation of that report?

14 A. (Cassetty) Yes, I did.

15 Q. Okay. Do you have any corrections to your testimony?

16 A. (Cassetty) Yes, I do. I have two. One is on Bates
17 Page 028. It's not really a correction, but an
18 addition. On Line 10, it references "82 bare steel
19 services, 54 plastic services, and 33 coated steel
20 services". It should also include "2 cast iron
21 services".

22 And, on Bates Page 033, Column L, I
23 believe.

24 MS. KNOWLTON: And, if I may interject.

[WITNESS PANEL: Cassetty~MacDonald~Savoie]

1 My copy is very small. I have copies that are slightly
2 larger, still difficult to read, but I'm happy to share,
3 if the Commissioners would like larger copies?

4 CMSR. HONIGBERG: I, for one, would love
5 a larger copy.

6 (Atty. Knowlton distributing documents.)

7 CHAIRMAN IGNATIUS: Thank you.

8 MR. SPEIDEL: Sure. Why not. Thank
9 you, Sarah.

10 CHAIRMAN IGNATIUS: A little larger than
11 that.

12 MS. KNOWLTON: It's still hard to read,
13 but it's a little bit less hard to read. We'll work on
14 improving this for next year, I promise.

15 **BY THE WITNESS:**

16 A. (Cassetty) So, it's the column that -- it's Column L,
17 it says "Services" -- "Service Relays and Inserts".
18 There were three specific jobs that had minor changes.
19 So, the total at the bottom should read "40 inserts,
20 132 relays, 2 new, and 1 abandonment".

21 BY MS. KNOWLTON:

22 Q. With that correction, if I were to ask you the
23 questions in your testimony today, would the answers be
24 the same?

1 A. (Cassetty) Yes.

2 Q. Mr. MacDonald, would you please state your full name
3 for the record.

4 A. (MacDonald) Richard G. MacDonald.

5 Q. By whom are you employed?

6 A. (MacDonald) Liberty Utilities Corporation for New
7 Hampshire.

8 Q. What is your position with the Company?

9 A. (MacDonald) Director of Gas Operations for New
10 Hampshire Region.

11 Q. What are your responsibilities in that position?

12 A. (MacDonald) Overall responsibilities for all gas
13 operational processes, including construction, service,
14 and maintenance, and meter operations.

15 Q. Do you have responsibilities as they relate to the CIBS
16 Program?

17 A. (MacDonald) Oversight of the Program, assisting Gwyn in
18 managing and oversight of the execution of the work
19 plan.

20 Q. Do you have before you what we've marked for
21 identification as "Exhibit 1"?

22 A. (MacDonald) Yes, I do.

23 Q. What portion of this document were you responsible for?

24 A. (MacDonald) General oversight, as far as review, and

1 working with Gwyn, you know, in the preparation of our
2 testimony. Gwyn did most of the heavy lifting in the
3 preparation of all the detail.

4 Q. Is it fair to say that it was prepared under your
5 direction?

6 A. (MacDonald) It was.

7 Q. And, as for the first 20 pages, which is the FY 2014
8 Cast Iron Bare Steel Program Report, was that prepared
9 under your direction?

10 A. (MacDonald) It was.

11 Q. And, do you have any corrections to your testimony?

12 A. (MacDonald) No. The corrections that Gwyn has outlined
13 were for that, you know, for our testimony and plan.
14 No corrections.

15 Q. If I were to ask you the questions contained in your
16 testimony today, subject to the corrections that
17 Ms. Cassetty made, would the answers be the same?

18 A. (MacDonald) They would.

19 Q. Thank you. Mr. MacDonald, I want to ask you about the
20 testimony that Mr. Knepper filed in this docket
21 yesterday. Are you familiar with that testimony?

22 A. (MacDonald) Yes. Upon receipt, you know, I did read
23 through the entire testimony.

24 MS. KNOWLTON: And, Mr. Speidel, at this

1 point, would you want to mark that as "Exhibit 2" or have
2 we already done that?

3 MR. SPEIDEL: That would be fine. Yes.

4 CHAIRMAN IGNATIUS: Why don't we mark it
5 for identification as number "2". And, then, when we get
6 to it, Mr. Speidel can qualify the witnesses and go
7 through any particular changes.

8 (The document, as described, was
9 herewith marked as **Exhibit 2** for
10 identification.)

11 BY MS. KNOWLTON:

12 Q. Mr. MacDonald, based on your review of that testimony,
13 do you have any response to it?

14 A. (MacDonald) Yes. Just some general comments. There's
15 three, in general. On Page 12 of Mr. Knepper's
16 testimony, he refers to the "loadings" -- "overhead
17 loadings", "cost overhead loadings", if you will,
18 included in costs of the -- you know, the CIBS
19 construction costs. And, that he is concerned over
20 the -- that the loadings are, you know, trending in the
21 upper direction. And, I just wanted to clarify from
22 our perspective. You know, my involvement in New
23 Hampshire in the construction phase of this program,
24 you know, generally involved with -- through National

1 Grid. I was the Resource Planning and Investment
2 Planning Manager, and we assisted the Engineering team
3 for the CIBS Program during those years. And, you
4 know, it was -- my team was responsible for analyzing
5 all of the costs, working with the Finance group at
6 Grid to, you know, aggregate and accumulate all the
7 costs.

8 And, the loading structure, in general,
9 from, you know, between 2008 to 2011, overall, you
10 know, the loadings from National Grid were in the
11 70 percentile range. They fluctuated from year to
12 year. But, you know, as a four-year average during
13 that time period, I just wanted to let it be known that
14 the loadings for, you know, National Grid were in the
15 70 percentile range.

16 With Liberty, you know, we're
17 building -- we're still building some processes, as far
18 as allocations. You know, we have two years of, you
19 know, analysis of the CIBS Program. And, generally,
20 we're in -- we're in the 30 percentile range. 2013-14,
21 or fiscal 2014, the overall loading percentages were
22 22 percent. We continue -- or, excuse me, 23 percent.
23 We continue to refine, you know, the processes of
24 loadings and how administrative and oversight costs are

[WITNESS PANEL: Cassetty~MacDonald~Savoie]

1 included, you know, in the Program. So, I just wanted
2 to offer that out from our perspective on that comment,
3 to kind of, you know, address the concerns of Staff.

4 When it comes to the replacement rate,
5 and I'm sure we'll talk more about it through this
6 proceeding. You know, the Company -- we wanted to just
7 add in that the Company is looking at escalating the
8 replacement rate of the Program. As it stands, I
9 believe Mr. Knepper's testimony states that it's, you
10 know, over a 20-year program to replace all of the cast
11 iron and bare steel.

12 We plan to submit a, you know, a
13 long-term, long-range plan during the, you know, the
14 upcoming rate case proceeding that's going to happen
15 later this year on an accelerated plan. And, we're
16 ramping up the Program over the next two to three years
17 to a 12-mile replacement rate, which reduces that time
18 frame for replacement in the ten-year time frame. So,
19 as far as, you know, the replacement rates, the Company
20 does plan to, you know, escalate at a substantial rate.
21 You know, basically doubling, because this year we're
22 planning on almost 6 miles of pipe replacement over the
23 next three years. So, we wanted to point that out.

24 And, then, the third thing on the

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1 growth, we're certainly willing to work with Staff on,
2 you know, refining, you know, the growth opportunities
3 that exist along these projects. In the current year
4 project, you know, the opportunities that we've
5 identified so far are around 33, you know, potential
6 customers that we're working towards adding to our
7 system. So far, we've signed up six of them. When we
8 look at what we're replacing, you know, for services,
9 we're going to be replacing around 242 services, or 242
10 letters went out, 31 of them were non-customers. So,
11 when I look at, you know, 31 customers out of 242
12 letters, that's close to, you know, an 87 percent
13 saturation rate. So, along these lines, I just wanted
14 to point out for this year, this particular year, you
15 know, our saturation in these areas is 87 percent.

16 And, certainly, you know, we're trying
17 to capture as many opportunities as possible. That
18 will change from area to area, but, you know, a lot of
19 those mains that we're replacing are in established
20 areas, where we've had, you know, a stable level of
21 customer saturation.

22 Q. Mr. MacDonald, if you would turn to Page 14 of
23 Mr. Knepper's testimony.

24 A. (MacDonald) Just give me a minute to get there. Okay.

1 Yes.

2 Q. Looking at Lines 20 to 22, Mr. Knepper suggests that,
3 as an alternative, it may be more cost-effective to
4 approach CIBS replacements based on geographic areas or
5 zones. Do you have any response to that part of his
6 testimony?

7 A. (MacDonald) I do. You know, and especially as we
8 accelerate the Program, I think geographic areas do
9 make sense. I think, you know, as far as our
10 Replacement Program, there's really two phases to it.
11 The first phase is really addressing the high-risk pipe
12 segments that present a safety issue to the public. As
13 far as, you know, the leakage history, you know, we're
14 experiencing on those segments. And, the Company will
15 certainly focus on, you know, minimizing the risk of
16 those segments that are leaking. But, once we
17 eliminate these older segments and we eliminate the
18 risk, and the leak histories begin to flatten out,
19 that's when, certainly, the Company will pursue a
20 geographic, you know, basis for replacing, you know,
21 bare steel and cast iron pipe.

22 MS. KNOWLTON: The Company has no
23 further questions for its witnesses.

24 CHAIRMAN IGNATIUS: Thank you.

1 Mr. Speidel, questions, and -- well, I guess just we'll
2 get to your witnesses later, questions for these
3 witnesses?

4 MR. SPEIDEL: Thank you, Chairman.

5 **CROSS-EXAMINATION**

6 BY MR. SPEIDEL:

7 Q. This may be a premature question, but to the panel of
8 the Company witnesses. Would you anticipate the
9 ability of the Company to start teeing up a transition
10 to number, one, a ten-year accelerated replacement
11 program rate; two, a zone approach to replacement; and,
12 three, a more proactive approach to approaching new
13 customers, in conjunction with CIBS work, as a
14 consequence of a decisional order in this proceeding?

15 A. (MacDonald) Uh-huh.

16 Q. Or, would that require waiting till, in your view, the
17 rate case?

18 A. (MacDonald) Probably in the next rate case.

19 Q. So that you would expect that the modification to these
20 programs would require an examination in the rate case,
21 and then an order issuing from that?

22 A. (MacDonald) Yes.

23 Q. Okay. Thank you. Just one more small question. As
24 part of this proceeding, would the Company be able to

1 accept a transition for the next results filing being
2 made in the April 15th time frame, as indicated in
3 Mr. Knepper's testimony?

4 A. (MacDonald) We've discussed that, and we would accept
5 that, yes.

6 Q. All righty. And, just kind of getting things here.
7 This just in. Mr. MacDonald, you mentioned an
8 87 percent saturation rate for next year, is that
9 correct?

10 A. (MacDonald) For this current year, the 2015, you know,
11 CIBS Program that we're currently executing today, yes.
12 The saturation rate in the areas that we've looked at
13 is around 87 percent.

14 Q. Just to be clear, that's for Spring '14 through Spring
15 '15?

16 A. (MacDonald) Correct.

17 Q. Now, --

18 A. (MacDonald) The following year's planning could be
19 different depending, because the saturation rates vary
20 from street to street, area to area.

21 Q. Now, I have a feeling that this will be -- end up as a
22 record request for the Company. But do you happen to
23 have offhand handy the saturation rate for the past six
24 years of the CIBS Program?

1 A. (MacDonald) I do not.

2 MR. SPEIDEL: If it would be possible,
3 if we could have a record request made for that piece of
4 information, that would be most appreciated.

5 CHAIRMAN IGNATIUS: Does the Company
6 have any objection to that?

7 MS. KNOWLTON: I don't have any
8 objection to it. I just would want the Company to verify
9 that it's possible to obtain that information.

10 WITNESS MacDONALD: Yes, I think it is.
11 We could go back, you know, in those programs and research
12 the records, and similar to as we would under the
13 current --

14 (Court reporter interruption.)

15 WITNESS MacDONALD: CIBS Program, excuse
16 me.

17 MR. SPEIDEL: There's an understanding,
18 I've just been communicating with Mr. Frink, that there's
19 an understanding that this record request would not be
20 required to have an answer by July the first, which is the
21 expected order "as of" date. It's just a piece of
22 information that Staff would use as part of its ongoing
23 CIBS review during the upcoming program year.

24 WITNESS MacDONALD: Yes.

1 CHAIRMAN IGNATIUS: And, I would
2 recommend that we instead make it not a record request of
3 this file, but simply an information exchange with the
4 Company and the Staff for your review. And, if it is
5 something that should be part of the record in a future
6 proceeding, it would then come in at that point.

7 MR. SPEIDEL: That would be fine. Thank
8 you, Chairman. And, just one moment please.

9 (Atty. Speidel conferring with Staff
10 representatives.)

11 BY MR. SPEIDEL:

12 Q. And, one last question for the panel, if I may. In
13 Mr. Frink's testimony, he proposed that the Company
14 complete its test marketing and report the results,
15 along with the Company proposal on how to increase
16 conversions, and what an appropriate revenue target
17 related to expected conversions would be. And, this
18 report was to be filed by the year end. It's a
19 mouthful. So, if I have to repeat, let me know. Does
20 Liberty have any objections to Mr. Frink's proposal?

21 A. (MacDonald) No. We welcome, you know, working with
22 Staff on, you know, a process to, you know, improve our
23 customer additions along these projects.

24 MR. SPEIDEL: Thank you so much. Staff

1 has no further questions for the panel.

2 CHAIRMAN IGNATIUS: Thank you.

3 Commissioner Honigberg.

4 BY CMSR. HONIGBERG:

5 Q. Mr. MacDonald, in your comments regarding Page 12 of
6 Mr. Knepper's testimony, you used two different words
7 with "percent" in the root. And, I want to make sure I
8 understood what you were saying. The first phrase you
9 used was that the loadings were in the "70th percentile
10 range", and then later you talked about, and that was
11 under Grid, and then you talked about, under Liberty,
12 that the overhead was "23 percent". Two different
13 words.

14 A. (MacDonald) Right. So, as far as my reference to the
15 "percentile", you know, the overall average of the four
16 years for National Grid was 77 percent. You know, it
17 varied. So, what basically I meant was that the
18 overhead loadings at National Grid were in the 70
19 percentile range, as far as between 70 and 80 percent.

20 Q. Oh. Okay. All right. Just the use of that word. My
21 other questions have to do with the spreadsheet. I
22 tried to go through the spreadsheet and understand what
23 I was looking at, the small version, which is two
24 pages. The larger version appears to reproduce only

[WITNESS PANEL: Cassetty~MacDonald~Savoie]

1 the first page. And, I try -- I'm interested in what
2 the difference is between the first page and the second
3 page of the spreadsheet. So, I think this may be for
4 Ms. Cassetty, if you can -- I'm not sure, though.
5 Whoever feels comfortable answering it.

6 A. (Cassetty) Is that the one Sarah just gave you?

7 Q. Yes. What Attorney Knowlton just gave me is the first
8 page of the spreadsheet from your prefiled testimony.
9 There's a Page 2 of 2 that has more columns.

10 A. (MacDonald) I do have a full-size copy of both of those
11 sheets. Would you like them?

12 Q. Yes. It is really hard to look at the --

13 A. (Cassetty) I can tell you what that is.

14 (Witness MacDonald handing document to
15 Atty. Honigberg.)

16 **BY THE WITNESS:**

17 A. (Cassetty) The same information is in both of them.
18 It's just split out into two pages, so that you can
19 read it easily.

20 BY CMSR. HONIGBERG:

21 Q. So, the second one -- the second one just seems to have
22 many of the columns from the first one.

23 A. (Cassetty) Right.

24 Q. Not all of them. And, then, it has some additional

1 columns.

2 A. (Cassetty) It does.

3 Q. Okay.

4 A. (Cassetty) So, Pages 033 of the Bates, Bates Page 033,
5 the first sheet?

6 Q. Yes.

7 A. (Cassetty) Column A through v. It goes through from
8 the "Priority", which is the first column. Do you see
9 it on --

10 Q. Yes.

11 A. (Cassetty) Okay. And, it goes to about the middle of
12 the page, "Total Recoverable Costs (Excluding
13 Manchester Degradation Fees)". It's the last
14 green-shaded square.

15 Q. And, that's "V", yes.

16 A. (Cassetty) Yes. And, then, if you go to 034, which is
17 Page 2 of still the same sheet, "Priority", all the way
18 through, I'm sorry, "Comments" is kept as the first few
19 columns, and then it picks up where we left off on the
20 larger sheet, the "Estimated Carry Over Costs". So,
21 the first one, two, three, four, five, six, seven,
22 eight, nine, the first ten columns is repeated on both
23 sheets.

24 A. (MacDonald) They're duplicated on each sheet.

1 Q. Okay.

2 A. (MacDonald) Just to extend out, you know, the detailed
3 data. So that you could look at from either sheet to
4 sheet to understand which project you're on.

5 Q. And, I greatly appreciate that. I thought that's what
6 was going on. I will say, though, that the full-size
7 version that Mr. MacDonald just gave us actually is a
8 little different from what's in the --

9 A. (MacDonald) Yes. The column splits on the sheet are a
10 little bit different. Same information, same filing.

11 Q. Okay. And, so, it being virtually impossible to read
12 the small ones, the comments that are in the very last
13 column of the second page under what's the sort of
14 orange-colored heading, --

15 A. (Cassetty) Yes.

16 Q. -- those comments -- let me back up. These
17 spreadsheets tell us what?

18 A. (Cassetty) Everything you could possibly want to know
19 about the CIBS Program.

20 Q. I was afraid of that.

21 A. (MacDonald) More than you want to know, probably.

22 Q. Yes.

23 A. (Cassetty) So, to answer your question, the very last
24 comments -- the very last column, the "Variance"

[WITNESS PANEL: Cassetty~MacDonald~Savoie]

1 column, that explains the variance between the direct
2 and the loaded costs.

3 Q. And, the costs that you're seeking to recover
4 ultimately are in which column?

5 A. (Cassetty) Those would be the loaded costs. It's
6 actually the -- it's the last column on the first page.

7 Q. Column V?

8 A. (Cassetty) It's the one right in the middle. It says
9 "Total Recoverable Costs (Excluding Manchester
10 Degradation Fees)".

11 Q. Is that Column V?

12 A. (Cassetty) Column --

13 Q. Green?

14 A. (MacDonald) Yes.

15 A. (Cassetty) Yes. Yes, Column V.

16 CMSR. HONIGBERG: All right. I don't
17 have any other questions at this time. I may spend a few
18 quality minutes with the spreadsheets while the Chair is
19 asking questions. So, I may circle back. But, at this
20 point, I have no other questions.

21 CHAIRMAN IGNATIUS: All right.

22 BY CHAIRMAN IGNATIUS:

23 Q. I have a couple of questions about the change in the
24 projected number of miles to be covered in the coming

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1 year. Mr. MacDonald, you had said that you expect it
2 to double what had been done in the last year, correct?

3 A. (MacDonald) For 2015, which is the current year, we
4 have a plan of almost 6 miles. You know, in Fiscal
5 Year 2016 and '17, we're going to ramp up to 8, then
6 9 miles -- or, excuse me, 10 miles. And, then, by
7 2018, we'll be replacing at a rate of 12 miles a year.

8 Q. And, if you kept at that pace that you're now
9 projecting, how many years would it take to complete
10 the system?

11 A. (MacDonald) We're projecting a ten-year plan to replace
12 that, replace the bare steel and cast iron. The annual
13 rates may fluctuate, but -- and more detail will float
14 out during the upcoming rate case, but we want to
15 escalate to a ten-year program.

16 Q. So, help me understand then. When Mr. Speidel, I
17 thought he was asking "were you willing to make a
18 transition to go to a ten-year plan to replace nearly
19 all of the cast iron and bare steel pipe?" And, you
20 said "No, you weren't" -- "couldn't yet begin that
21 transition. It would have to be as a result of the
22 next rate case." What am I missing here?

23 A. (MacDonald) Well, I think that the Company is going to
24 seek approval, you know, for that escalation of that

1 plan during that proceeding.

2 Q. But, at least for the coming year, you don't need a
3 rate case to accelerate the pace that you just
4 described? During the period of time between now and
5 the next rate case determination, are you going to keep
6 at the more accelerated pace that you described just
7 now in your testimony?

8 A. (MacDonald) For this current year, we have a plan
9 that's -- that we're going to replace 6 miles of pipe.
10 2015 -- or '16, we were going to -- we will be at a
11 rate of around 12 miles of pipe. We have to escalate
12 up to 9 miles, and then to 12 miles, basically, because
13 we're going to have to obtain additional contractor
14 resources to absorb the incremental workload.

15 Q. All right. So, your projection is that for -- is it
16 your Fiscal Year '15 you would be at the 6-mile level?

17 A. (MacDonald) Yes.

18 Q. Fiscal Year '16, you'd try to hit 9, and Fiscal Year
19 '17 try to hit 12?

20 A. (MacDonald) Yes.

21 Q. Okay. And, that would be dependent on bringing on
22 additional workload?

23 A. (MacDonald) Additional resources, yes.

24 Q. And, would it also be your expectation that the

1 recovery requests each year would be going up, because
2 of the amount of work being done?

3 A. (MacDonald) They would.

4 Q. The suggestion that there could be a better targeting
5 of projects by looking at a zone approach, is that
6 something -- I think you said you were willing to talk
7 to the Staff about ways to improve the program.

8 A. (MacDonald) Yes.

9 Q. Does that "zone" notion make sense to you or not?

10 A. (MacDonald) It does. In weighing the, you know, the
11 priorities, you know, there are pipe segments that we
12 feel are at a risk level where we would want to, you
13 know, put those in the plan up front or ahead of a
14 targeted, you know, neighborhood strategy replacement.

15 Q. So, even if it were out of the targeted zone, if there
16 were a safety concern or an apparent real breakdown in
17 leakage, you'd want to be sure to go there, even if
18 it's outside of the targeted zone area?

19 A. (MacDonald) That's correct. You know, really, as far
20 as eliminating the high-risk pipe, you know, once
21 the -- you know, those segments are eliminated, we'll
22 have more flexibility to establish more efficient means
23 for going into certain areas and replacing pipe.

24 Q. The photographs that you folks submit with these always

1 terrify me. And, sometimes the answer as "well, it
2 probably didn't look that bad when it was in place,
3 but, once it got taken out, the hole got even bigger."
4 But that's not all that comforting. I'm looking, say,
5 for example, Bates Page 016 in your Exhibit 1. It's a
6 pretty big hole. Are you noticing that what you're
7 bringing up tends to confirm you were right to go where
8 you were, and that your -- the things that you've
9 targeted really are areas that need to be replaced?

10 A. (MacDonald) Yes. There's a lot of variables that the
11 Engineering team considers; the leakage rates, the age
12 of the pipe, the size of the pipe. And, all things
13 combined, you know, when those things are reviewed,
14 those segments usually surface to the top of the list.

15 CHAIRMAN IGNATIUS: That, I think, may
16 be it for me. But Commissioner Honigberg may have more
17 questions.

18 CMSR. HONIGBERG: Okay.

19 BY CMSR. HONIGBERG:

20 Q. I'm going to circle back to the spreadsheets and the
21 variances. The variances struck me as very large.
22 And, I know very little about what is involved in
23 estimating what the costs are going to be, either the
24 loaded or the direct costs. But some of these

[WITNESS PANEL: Cassetty~MacDonald~Savoie]

1 variances are just -- they're enormous. Is this
2 expected or can you do better with the projections?
3 Ultimately, your bottom line is 16 percent total
4 variance on the loaded and 22 percent on the direct.
5 But that's the result of some being 60 percent high and
6 others being 13 percent low, and there's a
7 "117 percent" number here. There's very large
8 variances. Can somebody tell me about variances?

9 A. (Cassetty) It really -- a lot of times there's things
10 like ledge removal that we didn't take into
11 consideration. There's police details that, you know,
12 if the job took longer, the police detail is going to
13 be a lot longer and more costly to the Company. But
14 we've taken measures to include things like shoring and
15 ledge removal in our estimates for this year. And
16 that, along with the experience of the maintenance
17 supervisors and the other construction supervisors, and
18 even Rich, known areas of ledge that we, you know, we
19 wouldn't have known, because we have a young staff
20 right now. So, yes. We are taking measures to better
21 the estimates.

22 Q. It seems like, just looking at the variance comments,
23 that a fair number of them start with the comment that
24 the "Estimate contractor loading was at 35 percent",

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1 but the actual came in something radically different.

2 A. (Cassetty) Uh-huh.

3 Q. Is that a reference to those kinds of issues or
4 something else or --

5 A. (MacDonald) Well, yes. It's in reference to smoothing
6 out our, you know, our loading processes, you know, on
7 the finance side of, you know, the company operations.
8 We're working with the Finance team to come up with,
9 you know, with improved methods of, you know, cost
10 allocations or overheads.

11 Q. Also, I'm interested in the status of the litigation
12 about the degradation fees, and it may be a more
13 appropriate question for the lawyers. But can someone
14 tell me the current status of the litigation? It may
15 be in the filing and I skipped over it. But who can
16 tell me about that?

17 A. (Savoie) I can speak a little to that.

18 Q. Okay.

19 A. (Savoie) There is a trial for March of 2015 set.
20 There's very little activity right now going on. But
21 there might be some more heavier discovery in the fall
22 as we approach that trial.

23 Q. Is it one case for both Manchester and Concord?

24 A. (Savoie) It's been consolidated.

1 Q. Where?

2 MS. KNOWLTON: If I may?

3 CMSR. HONIGBERG: Sure.

4 MR. SPEIDEL: No objection.

5 MS. KNOWLTON: The case has been
6 consolidated in the Merrimack County Superior Court. And,
7 expert disclosures come in in the fall, that's really the
8 next big deadline in the case. Right now, it is fairly
9 quiet. There's been some discovery that's come in
10 recently, discovery responses from the City of Concord.
11 But it's been fairly quiet for the moment.

12 CMSR. HONIGBERG: Okay. I don't have
13 any other questions. Thank you.

14 CHAIRMAN IGNATIUS: Any redirect,
15 Ms. Knowlton?

16 MS. KNOWLTON: The Company has none.

17 CHAIRMAN IGNATIUS: All right. Then,
18 thank you. You three are excused. Thank you very much
19 for your testimony.

20 (Cmsr. Honigberg handing document to Mr.
21 MacDonald.)

22 CHAIRMAN IGNATIUS: We just handed back
23 Mr. MacDonald's larger version. I'm assuming that Staff
24 has a larger copy of that spreadsheet, is that correct?

1 MR. SPEIDEL: Yes. Also, internally,
2 the Safety Division has these large format printers that
3 are pretty handy. So, when you have the actual data in
4 pdf format, you're able to load up as large as you want in
5 the large format printers. And, I think the Staff has
6 been able to use those fairly successfully.

7 CHAIRMAN IGNATIUS: All right. And, I
8 know, in prior dockets, we've had it, I think, sort of
9 folded out, and so the type was larger, in order to be
10 able to get the full picture and be able to read it.

11 MS. KNOWLTON: Absolutely. We will do
12 that, and apologize we didn't do it today. So, we will
13 definitely do it in the future when we make the filing.

14 CHAIRMAN IGNATIUS: Are we ready now for
15 the Staff panel?

16 MR. SPEIDEL: Yes. Yes, Chairman.

17 CHAIRMAN IGNATIUS: Then, why don't you
18 have your two witnesses --

19 MR. SPEIDEL: Yes. Randy Knepper and
20 Steve Frink, I would ask that they come to the stand
21 please.

22 (Whereupon **Randall S. Knepper** and
23 **Stephen P. Frink** were duly sworn by the
24 Court Reporter.)

[WITNESS PANEL: Knepper~Frink]

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RANDALL S. KNEPPER, SWORN

STEPHEN P. FRINK, SWORN

DIRECT EXAMINATION

BY MR. SPEIDEL:

Q. Okay. Mr. Knepper, I'll begin with you. Do you recognize the document that has been requested by Ms. Knowlton and the Company for marking as "Exhibit 2"?

A. (Knepper) Yes, I do.

Q. And, that is your testimony that you filed?

A. (Knepper) That is correct.

Q. Okay. Could you please state your full name and job description at the Commission for us.

A. (Knepper) My name is Randall Knepper. I am the Director of Safety.

Q. And, you prepared this testimony as part of your duties and responsibilities here at the Commission?

A. (Knepper) Yes, I did.

Q. And, could you just state very briefly what are your professional qualifications?

A. (Knepper) I'm an engineer. I've worked in the utility world most of my life, and been around in terms of energy. Also, very familiar with pipeline safety, in terms of reviewing distribution integrity management

[WITNESS PANEL: Knepper~Frink]

1 plans. And, I represent many national committees on
2 those topics.

3 Q. And, you're a Registered Professional Engineer?

4 A. (Knepper) Yes, I am.

5 Q. Thank you. Mr. Frink, you have in front of you likely
6 a copy of a document that was filed on June the 17th of
7 2014, is that right?

8 A. (Frink) That's right.

9 Q. That is your testimony?

10 A. (Frink) Yes, it is.

11 Q. Could you please state your full name and
12 responsibilities here at the Commission.

13 A. (Frink) Stephen Frink. And, I'm the Assistant Director
14 of the Gas & Water Division.

15 Q. And, in general terms, your professional qualifications
16 are?

17 A. (Frink) I am mainly involved in accounting and finance
18 issues.

19 Q. Okay. And, you --

20 MR. SPEIDEL: I would like to ask that
21 this testimony be marked as "Hearing Exhibit 3"?

22 CHAIRMAN IGNATIUS: So marked for
23 identification as "3".

24 (The document, as described, was

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[WITNESS PANEL: Knepper~Frink]

1 herewith marked as **Exhibit 3** or
2 identification.)

3 MR. SPEIDEL: Thank you.

4 BY MR. SPEIDEL:

5 Q. Mr. Knepper, do you have any corrections that you would
6 like to make to your testimony?

7 A. (Knepper) I have three small corrections.

8 Q. Okay. Go ahead.

9 A. (Knepper) On Page 6, Line 7, I'd like to change the
10 word "breaks" to "leaks". On Page 7, Line 9, instead
11 of saying "nearly 60 percent", it should say "nearly
12 60 miles of the remaining population".

13 And, the third one is on Page 13, Line
14 20. If I could strike out the word "through", and
15 after "CIBS", add the word "Program".

16 Q. How about you, Mr. Frink? Do you have any line edits
17 you would like to make to your testimony?

18 A. (Frink) No.

19 Q. Gentlemen, you've heard some filling in by the Company
20 in terms of the details of their viewpoints on your
21 proposals made in the testimony. Would you have any
22 responses to what the Company had to say today?

23 A. (Knepper) There's a couple things. First of all, we
24 consider all the cast iron/bare steel high-risk pipe.

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[WITNESS PANEL: Knepper~Frink]

1 Not that there's riskier ones than others. That's
2 supported by the Liberty's Distribution Integrity
3 Management Plan, which is required by the Safety Codes
4 that they put together a plan. It identifies as a
5 threat category, the highest threat category is bare
6 steel and cast iron. And, so, when we're talking about
7 "risks", we're talking about "relative risks". But I
8 want to make sure everyone knows that it's all
9 considered "high risk". So, when you start talking
10 about "zones and neighborhoods", you know, you're
11 splitting the difference between pipes that have holes
12 and pipes that are just about to have a hole. Either
13 way, bare steel, it's all risky, and the same thing
14 goes with cast iron. And, the cast iron, almost all
15 cast iron main is connected with a lot of bare steel
16 services. And, so, by replacing cast iron main, it's a
17 way of attacking the bare steel services as well. So,
18 it's a little bit slightly different nuance than I
19 think Liberty has on it.

20 We asked for a lot of information,
21 Commissioner, and those spreadsheets are quite large,
22 because we're afraid of cost creep. And, so, we ask
23 for how many services there are? How many are bare
24 steel? How many are -- what the vintages are? We ask

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[WITNESS PANEL: Knepper~Frink]

1 for where it is? We ask for reports to be made, and
2 samples brought into us. All of this is to kind of
3 keep these cost controls done, and to make sure that
4 things aren't inadvertently being put into this Cast
5 Iron/Bare Steel Program that shouldn't be. They have a
6 lot of other mains. They have some plastic that they
7 are replacing, they have coated steel things, they have
8 municipal work. There are some other things that can
9 kind of creep in there. So, we're trying to keep, in
10 essence, cast iron/bare steel to be those
11 internally-driven projects, versus those
12 externally-driven projects, which are the municipality
13 is paving a road, someone else is installing some
14 utility that's getting close to yours. Someone else is
15 driving that project. The CIBS Program is meant to
16 incentivize by getting rid of lead/lag, and to let the
17 Company do projects that they may not have otherwise
18 known.

19 My third comment that I would like to
20 make is I'm not so sure I understand, if Staff has
21 suggested to the Company reducing this 21-year process
22 to 10, and it sounds like we're in concert with that,
23 I'm not so sure what that has to do with the rates,
24 because the CIBS Program goes into rates, and it goes

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[WITNESS PANEL: Knepper~Frink]

1 into -- I'm not so sure what that has to do with a rate
2 case. So, I'm a little bit perplexed by that. Maybe
3 Mr. Frink can comment on that. The rate case is going
4 to probably pick up a lot of those municipal costs,
5 those externally-driven costs, and because there is
6 cast iron and bare steel being removed, a significant
7 portion, just as much in the CIBS. That's going to be
8 picked up in the regular rate base.

9 One thing that we do want to do, or at
10 least I do in Safety, is we want to track how much is
11 being spent on total cast iron and bare steel from its
12 inception, whether or not there's been rate cases or
13 not. There's going to be rate cases, you know, every
14 two years, five years, ten years, whatever have you,
15 but I want to know how much it costs to remove cast
16 iron and bare steel, whether it be internally or
17 externally. So, we have to kind of track it from its
18 inception.

19 So, I'm kind of pleased, it's been six
20 years so far, we're talking about doing another ten,
21 and that would make this a 16-year replacement program.
22 So, that's -- that part I'm happy with.

23 I guess that's kind of where I'm at now.
24 We do think that there's opportunities, as you're

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[WITNESS PANEL: Knepper~Frink]

1 digging along the lines, and especially if the Company
2 is planning on ramping up to some of the numbers that
3 they talked about, I'm not opposed to that. But there
4 has to be also a ramp-up in trying to get new customers
5 that aren't, that to optimize that gas usage along the
6 mains. And, so, I'm happy to hear that, for the first
7 year, that they're, under the Liberty program, that
8 they're actually seeing some success with that. And,
9 that hasn't been the case in the recent couple years.
10 So -- and, that's why we asked for how many bare steel
11 services? How many coated steel services? Plastic
12 services? I guess the one thing we don't ask for is
13 "how many non-services are out there?" And, maybe
14 we'll be getting that in a record request.

15 But, other than that, I think the Staff
16 and the Company have been at this for a number of
17 years. We've been working -- we work collaboratively
18 on this. We review a lot of detail. They provide a
19 lot of detail. We have a lot of discussions about it.
20 And, so, you know, I expect that to continue.

21 Q. Thank you very much, Mr. Knepper. Mr. Frink, do you
22 have any further elaborations that you'd like to offer
23 or no?

24 A. (Frink) No.

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[WITNESS PANEL: Knepper~Frink]

1 Q. So, for the both of you, would it be fair to say that
2 it is Staff's position, as part of this proceeding,
3 that the Commission does have the authority to
4 authorize an acceleration of the Program towards ten
5 years as part of CIBS, and not necessarily as part of a
6 rate case. Is that fair to say?

7 A. (Frink) I believe so.

8 Q. Mr. Knepper, and you've already stated that you think
9 that --

10 A. (Knepper) Well, what happens is, you know, in my
11 opinion, is the Commission reacts to what is brought
12 before them. So, if the Company brings forward a
13 certain rate of replacement, the Commission will react
14 to it. And, if they bring a slow rate, it's a slow
15 rate. If it's a faster rate, it's a faster rate. My
16 concern is, 21 years is a long time at this rate, and,
17 you know, a lot can happen. It's only going to
18 continue to deteriorate, where, as Commissioner -- as
19 the Commissioners have noticed, I mean, you're seeing
20 pictures with holes in them. I mean, it's already
21 deteriorated. It should have been out of the ground a
22 long time ago. So, we're trying to do that balance.
23 We're trying to do it in a manner that's not putting
24 too much of an undue burden on customers. But I do

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[WITNESS PANEL: Knepper~Frink]

1 think the safety benefits are going to outweigh those
2 expenditures.

3 MR. SPEIDEL: Thank you so much. I have
4 no further direct questions of the Staff panelists.

5 CHAIRMAN IGNATIUS: Thank you.
6 Ms. Knowlton?

7 MS. KNOWLTON: I have just a few
8 questions.

9 **CROSS-EXAMINATION**

10 BY MS. KNOWLTON:

11 Q. This is for either Mr. Frink or for Mr. Knepper. Are
12 either of you -- or, are either of you familiar with
13 the proposal that Granite State Electric made in its
14 rate case to continue and also to revise its
15 Reliability Enhancement Program and Vegetation
16 Management Program as part of its last filed
17 distribution rate case?

18 A. (Frink) I'm not familiar with that.

19 A. (Knepper) Yes. I have not reviewed it in detail. I'd
20 be glad to take a look at it.

21 Q. Are you aware that the Company made that proposal in
22 the case without knowing the details of it?

23 A. (Knepper) I was not part of that docket. So, I am not
24 aware.

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[WITNESS PANEL: Knepper~Frink]

1 Q. If I were to represent to you that the Company did make
2 a proposal to extend the REP/VMP Program in its rate
3 case, would you take that subject to check?

4 A. (Frink) Yes.

5 A. (Knepper) Sure.

6 Q. And, would you also take subject to check that, in that
7 rate case, the Company set forth its proposed terms for
8 the continuation of that program?

9 A. (Frink) Subject to check, yes.

10 Q. Thank you. And that, lastly, that, subject to check,
11 that the Commission approved a continuation of that
12 REP/VMP Program in the Granite State rate case?

13 A. (Frink) Yes.

14 MS. KNOWLTON: I have nothing further
15 for these witnesses.

16 CHAIRMAN IGNATIUS: Commissioner
17 Honigberg?

18 CMSR. HONIGBERG: I have no questions.

19 CHAIRMAN IGNATIUS: I have a few.

20 BY CHAIRMAN IGNATIUS:

21 Q. Mr. Knepper, are there any federal standards regarding
22 percentages as sort of allowable acceptance --
23 allowable levels of cast iron and bare steel in a
24 Company's distribution system?

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[WITNESS PANEL: Knepper~Frink]

1 A. (Knepper) There are none. It's too much of a
2 variation. From my experience, the eastern part of the
3 country, the Northeast, in particular, has the highest
4 rates in the nation. There are some pockets in other
5 places, like Chicago and some others, but we also have
6 some of the oldest cities. And, so, those population
7 centers started, the pipes were put in place to feed
8 them, and they are still in service today.

9 Q. Are there requirements in your role, as one of the
10 delegated safety inspectors for the federal government,
11 requirements that you ensure that companies do have a
12 Bare Steel and Cast Iron Replacement Program?

13 A. (Knepper) We're encouraged, let's say. It's a state
14 matter. So, they can't require it. The federal
15 government has put out advisory bulletins. There's
16 been letters that have gone to governors, chairmans of
17 commissions across the country encouraging it. But
18 there is no "regulation" that would say "remove X by a
19 certain year." It doesn't mean that there won't be
20 something done by Congress that might do that in the
21 future. And, there's talk right now in Washington
22 about doing just that.

23 Q. Is there any recommended protocol, even if it's not a
24 requirement, for how quickly companies should try to

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[WITNESS PANEL: Knepper~Frink]

1 replace these systems Or facilities?

2 A. (Knepper) The answer is "no". They leave that to the
3 states.

4 Q. So, your recommendations to accelerate the program
5 aren't based on anything that we've been directed to do
6 through our federal inspection role that's been
7 delegated?

8 A. (Knepper) Not explicitly, no. Where does Staff come up
9 with it? We look at rates that are going on in other
10 states. We look at accidents and explosions that occur
11 nationally. We look to see if there's patterns.
12 Clearly, it's been identified, and I think by almost
13 all utilities across the country, that cast iron/bare
14 steel is one of the highest risks they have in their
15 distribution systems. And, so, that infrastructure
16 problem isn't going to go away. It's something that
17 they have to address.

18 Q. How about on the issue of cost controls? And, I'm
19 looking at your testimony around Page 12. You talk
20 about the importance of limiting both external costs
21 that might be imposed on a company through, for
22 example, municipal police detail or paving, but also
23 internal costs of the company undertaking the work. Do
24 you -- do you make the comments you do in your

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[WITNESS PANEL: Knepper~Frink]

1 testimony because you think the Company is not
2 attending to let's first just focus on those external
3 costs?

4 A. (Knepper) I think there can be improvements in those
5 areas. You know, I'm not in the Company, I don't have
6 all the discussions that they have or all the data.
7 But, you know, it appeared to me that you're working
8 with basically three municipalities, four. So, it's
9 not like we have to work with a lot, there's just three
10 or four. And, if you can do a shared -- I mean, both
11 the cities and the utilities have to replace
12 infrastructure, all right? A city might have to
13 replace their sewer mains, they might have to replace
14 their water mains. The utilities are going to have to
15 replace infrastructure. If you can approach them on a
16 shared basis, that's a win/win. Not just taking
17 advantage of when someone else is paving, but maybe
18 coordinating your project so that, if you have
19 something that's, you know, the 31st pipeline segment
20 in the queue, but the city is going to do something
21 because, and maybe they bring something up that you can
22 do and share costs, that there's a method of trying to
23 control costs.

24 Q. And, do you know that the Company is not communicating

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[WITNESS PANEL: Knepper~Frink]

1 with those three or four municipalities?

2 A. (Knepper) I haven't seen any "shared" projects like
3 that. And, it may be just that the overlap of their
4 projects and other projects. But it's something that
5 you always have to kind of keep an eye on, you have to
6 always keep an ear to the ground and look for those
7 benefits, because these are high-cost things, we're
8 always looking for every way to keep control of these
9 costs. And, so, you know, the way that I could confirm
10 that is I'd have to go meet with the municipalities
11 myself. And, we actually did that in the first year of
12 the program. And, maybe it's time to go back and do
13 the same thing to see if I can get that sense.

14 Q. How about efforts to control internal overhead costs?
15 Is it your sense, you said that you're "concerned that
16 they have been increasing from year to year", this is
17 at the bottom of Page 12, and that it's an increase
18 that's "unsustainable". Is it underlying that
19 statement a concern that the costs they're allowing are
20 improper or just that they may be proper, they're just
21 very high and will continue to be very high, leading to
22 the unsustainability?

23 A. (Knepper) I don't know if I can say that they're
24 "improper". I would have to do a more detailed study.

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1 We would have to ask for a lot more data. You know,
2 all I can do is react to what we see. There's a couple
3 ways of doing that. You can compare yourselves against
4 cost of municipalities, which are also under
5 constraints, and see what it's costing them to do their
6 work, right? It's the same streets, the same towns,
7 the same type of municipal work, and compare yourself.
8 You can do cost comparisons with other utilities here
9 in New Hampshire that are gas and see what kind of, you
10 know, cost rate structure. You may want to try to take
11 more management of the projects over, so that you're
12 not giving to the contractor him having to go get the
13 street permit or him having to do the locates or him
14 having to do some of those things, which have been kind
15 of passed down. Those become -- that's not done for
16 free. That rolls back into cost structure. And, so,
17 if the Company can kind of look at those things to see
18 if there's possibilities. And, maybe they already
19 have. And, it's just hard, it doesn't come out, and it
20 doesn't, when we have these discussions with them, it
21 doesn't come forward, it doesn't come across that way.

22 So, you know, I think that we're
23 constantly we have -- I think, as part of our job as a
24 regulator, is to constantly look for saving

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1 opportunities and different ways to do this, because my
2 comments were over a six-year period, you know, more of
3 a historical base, I think their comments were more of
4 a recent one-year base. So, you know, anything that we
5 can do.

6 I have no idea what the rate -- internal
7 rate structure is going to be, if they're going to
8 start to double or maybe even triple the amount that
9 they're talking about, because that's what I just
10 heard. I would assume that would have a certain impact
11 on spreading out costs on a larger amount of mains and
12 pipe segments.

13 A. (Frink) I would just like to add that the percentages
14 aren't necessarily the best way to look at this. If
15 you're doing a large number of projects, it's going to
16 be a lower percentage. There's a set amount of
17 overhead that you're going to have every year. And,
18 each year, as part of the CIBS Program, through
19 discovery, we question them as to what the total
20 overhead costs are. And, again, the percentages vary,
21 if you spreading that charge over \$10 million worth of
22 project versus 5 million. So, you would expect going
23 forward, with more projects being done, you'll see a
24 lower percentage, but it's the overhead really that

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1 we're interested in primarily, that -- and that has
2 not -- under Grid, that grew excessively. It seems to
3 me flatter now with Liberty, and we'll be watching that
4 going forward.

5 Q. Let me ask you about the question of efforts that
6 Liberty has been making or could have been making to
7 bring on new customers. Both of you testified to that.
8 Mr. Frink, your sense is that it hasn't been an
9 aggressive enough, or I don't think you used the word
10 "creative" enough, but that's what I took, that sort of
11 not taking advantage of some opportunities that might
12 draw some customers to natural gas. Can you elaborate
13 on that a bit more?

14 A. (Frink) Not aggressive enough. I think another word
15 would be "nonexistent". I mean, basically, it was a
16 abutter's letter that went to those customers. And, I
17 think that goes back to National Grid days and their
18 lack of desire it appeared to grow the system in New
19 Hampshire. Liberty has taken steps to improve that.
20 As we heard today, for this summer, instead of the two
21 customers added last year, the one customer the year
22 before, they're already up to six customers that have
23 signed up. So, I expect it to get better. I also
24 think there are creative ways that they could do even

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1 better.

2 And, I think, if, you know, in talking
3 to them and seeing what the results of their test
4 marketing is, that maybe we don't need a mechanism.
5 When I process a revenue target based on conversions, I
6 mean, if you're expecting 60 percent of the non-gas
7 customers to convert, and you're getting one or two,
8 that's a lot of lost revenues that we were expecting to
9 help offset the cost of this program. And, 60 percent
10 is on a new main. So, I think it would be something
11 less. But, if they're making an honest effort and the
12 results are improving, I don't think we need a
13 mechanism. But that will be something we'll look at
14 prior to next -- the next proceeding. And, I'm
15 encouraged by this year, and the Company's willingness
16 to work on these things. But there is more that they
17 could do, and they realize that and are working on it.

18 Q. One of your suggestions on Page 4 of your testimony,
19 starting at Line 13, was that the Company might provide
20 a cost savings by reducing the cost of the customer to
21 come on board if they did it during a period when work
22 was being done anyway, so that it would be to the
23 advantage of the customer to do it then, and not put it
24 off, and while the Company has got all its crews there,

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1 a savings to them. Have you seen that done in New
2 Hampshire or other states, that sort of an incentive
3 program?

4 A. (Frink) Actually, Mr. Knepper might be a better person
5 to address that, because EnergyNorth did that in the
6 past while Mr. Knepper was there. So, might be able to
7 provide you some details as to what worked for
8 EnergyNorth in the past.

9 A. (Knepper) I have to stop having these conversations in
10 the hall. Yes. Part of my previous history was I
11 worked in the sales and marketing, as well as just the
12 engineering function. So, I'm familiar with these type
13 of programs, and targeting customers and really going
14 after it. I mean, one of the comments that I made in
15 my testimony is you know the segments years ahead of
16 what you're going to do. You don't have to wait till
17 that year. You can start those efforts, even if -- you
18 plant the seeds as much as you can. Sending out an
19 abutter letter that says "resident" or "occupant"
20 doesn't do it. You've got to call, you have to meet
21 with them at night, you have to give them, you know,
22 customers want to know what their individual savings
23 are, what their individual costs are, not just average
24 costs or these things. You have to kind of -- you have

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1 to, really, these things just don't materialize on
2 their own. It takes effort. But I do think that
3 effort is good for the Company, because they are doing
4 work there anyways. And, so, all these costs that you
5 have about paving and siting projects and doing things,
6 you can really gain and optimize your system.

7 So, there's a lot of ways to do that,
8 but it requires a concerted effort, someone dedicated
9 to doing that. Somebody that is -- that has to become
10 a company focus. And, so, they have had a lot of other
11 things that they're doing. And, you know, I want to
12 make sure that this program, because it's a lot of
13 dollars that we're doing, both municipal and through
14 the CIBS, on cast iron and bare steel replacement, that
15 we're optimizing that customer growth along the way.

16 A. (Frink) I would also like to add that Northern has a
17 franchise request in before the Commission. And, in a
18 data request to Northern as to how their marketing that
19 main extension, one program they have is they have some
20 favorable financing they've set up for customers to
21 convert with a particular bank. So, that's something
22 else you can do. There are a lot of things you can do
23 to drive conversions that aren't currently being done.

24 CHAIRMAN IGNATIUS: All right. Thank

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1 you. That's helpful. Thank you. I have no other
2 questions. Mr. Speidel, any redirect?

3 MR. SPEIDEL: Yes. Very limited
4 redirect, on the matter of the modification of the
5 schedule as part of the CIBS proceeding, versus what he
6 heard from the Company today.

7 **REDIRECT EXAMINATION**

8 BY MR. SPEIDEL:

9 Q. And, Ms. Knowlton asked you a cross question regarding
10 an electric rate case. Now, just to leave that aside,
11 gas rate cases tend to take approximately 12 to 18
12 months to resolve, isn't that right, gentlemen? I
13 think Mr. Frink would tend to know that a little bit
14 better, but --

15 A. (Frink) The more recent ones have, yes.

16 Q. So, I think Staff's desire to have modifications
17 approved as part of the CIBS Program proceeding we have
18 at hand here is related to the desire to avoid
19 regulatory lag and time lag. Perhaps giving a green
20 light to the Company now, and not waiting until the
21 conclusion of the rate case to have that tied up, is
22 that right?

23 A. (Frink) That's correct.

24 MR. SPEIDEL: Okay. Well, that's all.

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1 Thank you. Well, go ahead, if you would like to answer
2 that.

3 **BY THE WITNESS:**

4 A. (Knepper) No. I'm not familiar with the -- I mean, I
5 can look at the Reliability Program, but there's going
6 to be some distinct -- I mean, just some things that
7 pop up in my head is, you know, one is, vegetation
8 management, those trees are constantly coming back.
9 These are replacements. These are one-time, once
10 you've replaced it, it's done. So, it's a different --
11 it's not necessarily parallel. It's not necessarily
12 equal. And, so, you know, the thing about the electric
13 companies are, they already have the customers all
14 along the streets there, because every customer has
15 electricity. So, there aren't growth opportunities.
16 So, you can't just make these comparisons. But we'd
17 have to look at if there's anything, and I'll be glad
18 to go back and look at stuff that was in that filing to
19 see if there's anything that's appropriate for the gas.

20 MR. SPEIDEL: Okay. Thank you.

21 CHAIRMAN IGNATIUS: All right. Then,
22 the witnesses are excused. Thank you. We have no further
23 testimony, correct?

24 (Atty. Speidel shaking head in the

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1 negative.)

2 CHAIRMAN IGNATIUS: Looks like we do
3 not. Is there any objection to striking the
4 identification on the three exhibits?

5 (No verbal response)

6 CHAIRMAN IGNATIUS: Seeing none, we will
7 do so. Is there anything else to address before closing
8 statements?

9 (No verbal response)

10 CHAIRMAN IGNATIUS: Then, we'll do that.
11 I'll ask Staff to go first. But let me just mention to
12 Ms. Knowlton, in your closing, just as an extra matter, if
13 you're able, can you give us an update of where you -- how
14 things stand for the planned conversion due to go next
15 week. Just very brief, any update, if there is anything
16 that's different from when we last were talking about
17 that. So, Mr. Speidel.

18 MR. SPEIDEL: Thank you, Chairman. Yes.
19 Staff recommends approval of the current package of CIBS
20 Program results for the past fiscal year. We've been
21 fleshing out an issue related to the question of program
22 modification today, because we heard a signal from the
23 Company, in their oral testimony today, regarding what
24 they would prefer as their preferred vehicle for driving

1 these changes in the Program. So, we'll just go through
2 the three categories of changes, and what I think to be
3 the position of Staff on each, regarding how the
4 Commission's order in this current proceeding could be
5 used to address and to enact these changes.

6 I think that there is a consensus
7 between the Company and the Staff that changing to an
8 April 15th filing date is appropriate. It gives more time
9 for review, more time for discovery responses, and
10 informal collaboration between the Staff and the Company
11 on getting the needed data.

12 There does seem to be a little bit of a
13 disagreement between the Staff and the Company about the
14 favored vehicle for enacting the acceleration to a
15 ten-year replacement schedule. Staff was under the
16 impression that this could be accomplished through an
17 order in this proceeding. At the very least, the
18 Commission should signal that it strongly supports such a
19 transition to a ten-year accelerated schedule. The
20 Company is already moving in that direction by jumping
21 from roughly three to roughly six miles of replacement
22 annually. And, if we could have that marker out there
23 before the rate case is filed, that would be very
24 important.

1 We do understand the Company might have
2 a different point of view on that. But, from Staff's
3 perspective, the sooner we get going, the better. It's
4 time to step on the gas. This is a good program, but it
5 could be better. And, we really believe, with the specter
6 of inflation and cost escalation, as just part of the cost
7 of doing business in today's world, if we could move
8 towards acceleration now, rather than later, that would be
9 best.

10 And, the third piece, in terms of the
11 Program modification, is the zonal approach question.
12 And, again, the specifics, in terms of what would be in
13 and out of rate base, yes, maybe that will be handled in
14 the next rate case that the Company will file. But,
15 certainly, as a matter of managerial philosophy about how
16 to best approach CIBS replacement, zonal approach is
17 probably the better way to go. We leave it to the
18 Commission to determine whether it could just say "this
19 requires further study" or "we should move towards a zonal
20 approach". It's a little bit of a fine matter there. But
21 I think you've heard testimony, written and oral, from
22 Staff indicating that that is a more efficient way to
23 proceed, especially in these larger urban centers in New
24 Hampshire, where you might be able to do a lot more with

1 less, if you take that approach.

2 So, we thank the Commission for its
3 consideration. And, we appreciate your time and your
4 effort in examining our positions and our data. Thank
5 you.

6 CHAIRMAN IGNATIUS: Mr. Speidel, I never
7 heard if you're supporting the filing that was made and
8 the recovery that's been requested?

9 MR. SPEIDEL: Oh. I said that in the
10 very beginning. We said we approve the recovery of the
11 CIBS costs.

12 CHAIRMAN IGNATIUS: Okay. Thank you.

13 MR. SPEIDEL: I'm sorry. I should have
14 said it a little louder. Thank you.

15 CHAIRMAN IGNATIUS: All right.

16 Ms. Knowlton.

17 MS. KNOWLTON: Thank you. The Company
18 is here today seeking approval of an approximately
19 \$330,000 revenue deficiency in association with its CIBS
20 work conducted in Fiscal Year 2014. For an average
21 residential customer, this translates into a \$1.64 rate
22 increase per year. This is money that is well spent to
23 mitigate risk, and certainly is in the public interest.
24 The Company requests that the Commission approve the

1 requested rate increase to take effect on July 1st, 2014.

2 Independent of this CIBS docket, the
3 Company planned to propose a change to its CIBS Program in
4 its upcoming EnergyNorth rate case to filed this summer,
5 in August. And, in that proposal, the Company intended to
6 and will be proposing an increase in the number of miles
7 to be worked on each year, thereby shortening the length
8 of time to remove the cast iron and bare steel that's
9 currently in the system. And, the Company is pleased to
10 hear that the Staff is in agreement with this ten-year
11 accelerated program.

12 As Mr. -- Mr. Speidel stated that, you
13 know, "It's time to step on the gas." And, I think,
14 before you head out on a ten-year journey, you can't just
15 hit the gas and go. You have to take some time to plan
16 your route, make sure that it's sensible. And, I think
17 that is why the Company will be proposing in the rate case
18 a consideration of the CIBS plan going forward. We think
19 that it's necessary to take the time to flesh out the
20 details of that proposal. You know, what the ranking is
21 of how, you know, which main is identified to be taken out
22 when? Whether a zonal approach is taken? How that's
23 factored in? We think there are a lot of those details
24 that need to be worked out. And, we think that's the

1 right place, that the rate case is a good place to do
2 that.

3 The CIBS docket is a very fast docket,
4 as I think we all would agree. And, we're concerned that
5 doing it within the context of this docket is just too
6 fast. It doesn't give the parties time to really flesh
7 out the details that are necessary for that upcoming
8 ten-year journey.

9 As to the issue of gas sales, the
10 Company will be following up with the Staff to discuss gas
11 sales and to hear the Staff's ideas, and also to share the
12 Company's plans. The Company has made a recent change in
13 management of its gas sales, to move away from a National
14 Grid model, to one that's, you know, that's more
15 forward-thinking and progressive. The Company does have a
16 new Manager of Gas Sales, and it is certainly aware --
17 there certainly is, I'm sorry, an awareness of the gas --
18 the importance of gas sales at the highest level of the
19 Company. And, it's something that I will tell you does
20 receive a lot of consideration, and the Company is
21 endeavoring to do better in this area. So, we want to
22 work with the Staff on this and hear their ideas, and
23 share ours as well.

24 Finally, with regard to the planned

1 conversion of the Company's electric systems, everything
2 is a "go" as of now. There is nothing that has changed
3 since the Company gave its last report to the Commission.

4 And, just one point, back to the CIBS
5 Program and the number of miles that the Company will
6 undertake each year. I wouldn't want the Commission to
7 leave with the impression that the Company is standing
8 still and waiting to do something. We've already
9 accelerated the number of miles this year. We're putting
10 together a proposal now that will be filed on August 1st.
11 So, it is something that the Company has embraced and
12 wants to work with the Staff on. And, we do look forward
13 to bringing that proposal forward to you. And, we
14 certainly have no -- certainly no objection whatsoever,
15 you know, to the Commission issuing a signal to the Staff
16 and the Company about what it would like for CIBS. And,
17 you know, if the Commission has a strong feeling about the
18 best mechanism through which or vehicle through which to
19 undertake the consideration of that, we're certainly open
20 to that. We just want to make sure that it's a docket and
21 in a place where we have the time to work out the details
22 in an appropriate fashion.

23 CHAIRMAN IGNATIUS: So, if I'm following
24 you correctly, you're saying that, in the short term,

1 before the next rate case is concluded, the Company is
2 prepared to have a more accelerated CIBS Program that
3 would reach the five and a half to six mile level, and
4 even try to ramp up to be higher than that. But that, to
5 commit to a ten-year plan for all of that replacement,
6 you'd want that worked through the rate case?

7 MS. KNOWLTON: Right. As I believe Mr.
8 MacDonald testified, six years is already in the works for
9 Fiscal Year 2015.

10 MR. MacDONALD: Six miles.

11 MS. KNOWLTON: I'm sorry, six miles.
12 And, I don't -- you know, I don't believe that we need to
13 wait for the rate case to do that. I also would note that
14 the rate case should conclude within one year. By
15 statute, it's required to. So, I don't expect that it
16 would take longer than that. So, we are moving forward
17 with the accelerated mileage. And, I do think, just
18 before we get to the, you know, 10 to 12 miles a year, we
19 need to really think about and spend some time working
20 through the details of what is that going to look like,
21 along with lining up the contractor crews, as Mr.
22 MacDonald indicated.

23 CHAIRMAN IGNATIUS: And, you were
24 agreeable to the April 15th filing date?

1 MS. KNOWLTON: Yes.

2 CHAIRMAN IGNATIUS: All right. We know
3 that you sought a change in rates as of July 1st with this
4 filing, which is extremely accelerated. So, we will take
5 it under consideration. If it's possible to act in that
6 time frame, we will do so.

7 And, is there anything else?

8 (No verbal response)

9 CHAIRMAN IGNATIUS: If not, then I will
10 close the record in this case and adjourn.

11 **(Whereupon the hearing was adjourned at**
12 **3:02 p.m.)**

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