STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 14-041

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Fiscal Year 2014 (April 1, 2013 – March 31, 2014)
Cast Iron/Bare Steel Replacement Program Filing

JOINT DIRECT TESTIMONY

OF

GWYN M. CASSETTY

RICHARD G. MACDONALD

May 15, 2014

I. INTRODUCTION

Q. Would you both please state your full names and business addresses?

A. My name is Gwyn M. Cassetty. My business address is 130 Elm Street, Manchester, New Hampshire, 03101-2716.

A. My Name is Richard G. MacDonald. My business address is 130 Elm Street, Manchester, New Hampshire, 03101-2716.

Q. By whom are you both employed and in what capacity?

A. (GC) I am the Manager, Gas Construction for Liberty Energy Utilities (New Hampshire) Corp. ("Liberty Energy NH"), which provides services to Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty" or the "Company").

A. (RM) I am the Director of Gas Operations for Liberty Energy Utilities (New Hampshire) Corp. ("Liberty Energy NH"), which provides services to Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty" or the "Company").

Q. Would you both please provide a brief overview of your experience and education?

A. (GC) Yes. In 1994 I received a Bachelor's of Arts in Finance from Saint Anselm College in Manchester, NH. In 2001 I received a Masters of Business Administration from the University of West Florida in Pensacola, FL. In September 2012, I became employed by Liberty Energy NH. My current position is Manager, Gas Construction. From 2001 to August 2012, I was employed by National Grid and its legacy companies where I held various positions including Senior Analyst Gas Financial Operations, Lead Analyst Resource Management and Program Manager, Gas Distribution Field Operations. One of my responsibilities as Manager, Gas Construction is the execution and tracking of Liberty's Cast Iron/Bare Steel ("CIBS") program.

A. (RM) Yes. In 1977 I received an Associate's Degree in Applied Science in Industrial Electricity from the NH Community College in Nashua, NH. In 1997, I received an Associate's in Mechanical Engineering Technology from the New Hampshire Technical Institute in Concord, NH. In July of 2012, I assumed the position of Director Gas Operations for Liberty Energy Utilities (New Hampshire) Corp. My responsibilities as Director include managerial oversight of all gas operations and construction processes.

From 1977 to 2000, I was employed by EnergyNorth Natural Gas, Inc. where I held various supervisory and managerial positions in gas operations. From 2000 to 2008, I was employed by KeySpan Energy Delivery where I was the Manager of Field Operations and Construction. In 2008, I accepted a position at National Grid as the New England Resource Planning Manager responsible for operating and maintenance work plans and capital construction project planning for the New England region.

Q. Have you previously testified in regulatory proceedings before the New Hampshire Public Utilities Commission (the "Commission")?

A. (GC) Yes, I testified in DG 13-149, Liberty' Fiscal Year 2013 Cast Iron/Bare Steel Replacement Program Filing.

A. (RM) Yes, I testified in DG 06-045, EnergyNorth Natural Gas, Inc.'s Petition for Termination of Propane Service to Kaunas Circle, Manchester, NH, as well as in last year's Cast Iron/Bare Steel docket, DG 13-149.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to explain the Company's annual program report

associated with the CIBS main replacement program for fiscal year ("FY") 2014, or the twelve months ended March 31, 2014 ("FY 2014").

Q. Please describe the purpose of the CIBS program.

A. The CIBS program was established as part of the National Grid/KeySpan merger settlement agreement approved by the Commission in Order No. 24,777 dated July 12, 2007, in Docket No. DG 06-107 ("Merger Agreement") and the settlement agreement in Docket No. DG 11-040 approved in Order No. 25,370. The program is aimed at accelerating the replacement of cast iron and bare steel pipes used in the Company's distribution system, which tend to deteriorate over time. These are pipes that have been in-ground and exposed to a corrosive environment and earth movement for many years, in some cases more than one hundred years.

Q. How is the CIBS program implemented?

A. Under the CIBS program, the Company annually submits its plan for the replacement of cast iron and bare steel pipes for the coming fiscal year which begins in April[1] to the Commission Staff for review and comment. The proposed plan sets forth a prioritized list of pipes to be replaced based upon the year of

[1] The CIBS' fiscal year occurs between April of the plan year and concludes in March of the following year.

installation and condition of the pipe as well as other relevant factors. Subject to certain limited exceptions, pipes replaced as part of public works projects or as part of the Company's gas main encroachment policy are excluded from the CIBS program because these pipes would likely have been replaced even in the absence of the program. Following review by Staff, including technical sessions between Staff and the Company, Liberty implements the CIBS plan over the course of the fiscal year, subject to reasonable deviations based on circumstances that may arise or additional information that may become available.

The base amount of capital expenditures required under the CIBS program is $500,000 ("CIBS Base Amount"), and the Company is permitted a permanent increase in its base distribution delivery rates ("Capital Investment Allowance"), effective as of July 1 of each year, to recover the annual revenue requirement for investments made in excess of the CIBS Base Amount during the preceding fiscal year.

By May 15 of each year, the Company submits an annual CIBS report and rate adjustment filing ("CIBS Report") detailing the actual amount expended in implementing the CIBS plan for the prior fiscal year. Accompanying the CIBS Report are schedules showing the calculation of the associated revenue

requirement. The form of the CIBS revenue requirement calculation is set forth in the Merger Agreement.

III. FISCAL 2014 CIBS PROGRAM

Q. Please describe the FY 2014 CIBS program.

A. The FY 2014 CIBS program was based on a preliminary project plan developed by the Company in January 2013 and agreed to by Staff during a subsequent technical session in April 2013. Based upon comments received from Staff during the technical session, the Company revised its FY 2014 CIBS Plan and subsequently submitted a final version to Staff in May. The final FY 2014 CIBS program consisted of 20 new projects comprising the replacement of 3.51 (actual) miles of leak prone pipe at a total estimated cost of $3,425,249. The program also included the replacement of 129 associated non-plastic services (88 Bare Steel, 2 Cast Iron and 39 Coated Steel). A report summarizing the FY 2014 CIBS program is included as Attachment GMC/RM-1 to our testimony. The report includes, among other things, an overview of the actual capital expenditures incurred in implementing the FY 2014 CIBS Plan, the calculation of the incremental revenue requirement, variances between the initial project estimated costs and final estimated project costs, and the status of the pending litigation between Liberty and the Cities of Manchester and Concord. Also included with

the report is a "2014 Condition Bare Steel Main Replacement Program – Sample Analysis," describing steel pipe and soil samples collected from the CIBS projects completed over the course of the 2014 construction season.

Q. Please provide a brief overview of Attachment GMC/RM-2.

A. Attachment GMC/RM-2 is the FY 2014 CIBS Final Cost Report, which compares the FY 2014 CIBS Plan to the actual units completed and the actual FY 2014 costs incurred through March 31, 2014. Overall, the Company installed 3.51 miles, as compared to the proposed 3.23 miles, at a final cost of $3,151,795. The Company also replaced or inserted 82 bare steel services, 54 plastic services, and 33 coated steel services. The costs for the plastic and coated steel services have been removed from the program (see Attachment GMC/RM-2 column R).

Q. Why did the Company complete more miles than projected?

A. The projected footage is only an estimate from our mapping system. In the field, adjustments are made as needed once our facilities are excavated and exposed. The footage variances are due to location or existing pipe condition requiring additional main footage at the tie-in.

Q. Were all the projects proposed for FY 2014 completed?

A. Yes, all proposed CIBS projects for FY 2014 were completed in the FY2014 construction season.

Q. Is all the replacement main installed in FY 2014 used and useful?

A. Yes. All of the main and related capital improvements are used and useful and providing service to customers.

Q. Were there any carry-over costs from FY 2014 CIBS projects that the Company expects to incur in FY 2015?

A. Yes. As shown on Attachment GMC/RM-2 column W, there is $336,793 of carry-over costs from FY 2014 to FY 2015. All of the carry-over costs are related to final trench restoration work that could not be completed in the planned fiscal year due to city rules regarding minimum temperature requirements for final restoration.

Q. What are the unit costs for FY 2014?

A. The actual total per foot cost for the FY 2014 program was $193 (excluding carry over costs) compared to the estimated loaded cost of $183. The actual unit cost including carry over costs for FY 2014 was $214. On a direct basis, the actual

unit cost was $170 per foot, compared to a direct estimated cost per foot of $138. The variance between the estimated and actual per foot unit costs are due to the increased need for hand excavation near other utilities or structures, shoring, ledge removal, and traffic control. Often we don't know of specific underground conditions until we excavate. The Company will continue to undertake efforts to control its unit costs on a going forward basis, including improved estimating, and including the costs of additional shoring and traffic control, as well as utilizing experience from the field of known areas of ledge.

Q. What has the Company done to control unit costs?

A. The Company controls direct costs by monitoring crew productivity and working closely with cities and towns to ensure that permits are obtained in a timely manner and crew down time is reduced to the greatest extent possible. Other significant drivers of costs associated with the FY 2014 CIBS projects are contractor labor costs, final restoration requirements for New Hampshire municipalities, and roadway degradation fees imposed by Concord. The Company's FY 2014 contractor labor costs are fixed costs (to the extent that the length of main being replaced has already been determined). In an effort to control contractor labor costs, the Company completed an RFP process for a three year mains and services contract with 12 qualified construction contractors. FY

2013 was the first year of this contract.

The Company's ability to manage final restoration costs is less flexible. Final restoration requirements imposed by New Hampshire municipalities, including Manchester, Nashua, and Concord are considerably higher than those imposed by other municipalities in New Hampshire as well as municipalities in nearby states. For example, most New Hampshire municipalities in which Liberty performs work require a 2 foot cutback of the gas trench to the depth of the existing pavement, and at least one municipality requires a 3 foot cutback of the gas trench and a dig out of road material to a depth of 18 inches, with gravel replacement. These requirements result in additional direct charges of $60 to $100 per linear foot, depending on the municipality.

By contrast, in most other areas outside of New Hampshire, restoration work is limited to repaving the gas trench back to its original condition. For example, in 1993, the Massachusetts Department of Public Utilities issued order MA 98-22, which standardizes the requirements that public utilities must comply with when restoring a roadway within a Massachusetts municipality. This ensures that legitimate public safety concerns are addressed, while at the same time attempting to control unit costs and limit the amount of main replacement expense that a

utility must seek to recover through rates.

Q. Does this conclude your testimony?

A. Yes it does.