

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

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Concord, New Hampshire

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RE: DG 16-449
LIBERTY UTILITIES (ENERGYNORTH NATURAL
GAS) CORP. d/b/a LIBERTY UTILITIES:
2016 Cast Iron/Bare Steel Replacement
Program Results.

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Robert R. Scott
Commissioner Kathryn M. Bailey

Sandy Deno, Clerk

APPEARANCES: Reptg. Liberty Utilities (EnergyNorth
Natural Gas) Corp. d/b/a Liberty
Utilities:
Michael J. Sheehan, Esq.

Reptg. PUC Staff:
Alexander F. Speidel, Esq.
Randall Knepper, Director/Safety Div.
Stephen Frink, Assistant Director/
Gas & Water Division

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

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 IAN T. CRABTREE
 RICHARD G. MacDONALD

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1	Liberty Utilities' 2016 Cast Iron/Bare Steel Replacement Program Results, including Joint Direct Testimony of Gwyn M. Cassetty and Ian T. Crabtree, with attachments, and the Direct Testimony of David B. Simek, with attachments (04-15-16)	5
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P R O C E E D I N G

CHAIRMAN HONIGBERG: We're here this morning in Docket DG 16-449, which is Liberty Utilities (EnergyNorth Natural Gas) Corp.'s Cast Iron/Bare Steel Replacement Program. We're here to review the report from the last year, projections for the future. We have testimony from both the Company and from Staff.

And I'm not sure what else I need to do. Are there any preliminary matters? Wait a minute, before I do that, let's take appearances.

MR. SHEEHAN: Good morning, Commissioners. Mike Sheehan, for Liberty Utilities.

MR. SPEIDEL: Alexander Speidel, representing the Staff of the Commission. And I have with me Randall Knepper, Director of the Safety Division, and Steve Frink, the Assistant Director of the Gas & Water Division.

CHAIRMAN HONIGBERG: Now, are there any preliminary matters before we get started?

Mr. Sheehan.

MR. SHEEHAN: Yes. We'd like to

1 mark, as "Exhibit 1", our filing in this case,
2 which is Bates numbered 001 through 077 or 078,
3 I believe, which contains the testimony of the
4 three witnesses, with their attachments.

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

8 CHAIRMAN HONIGBERG: I expect that
9 Staff's submission will be an exhibit as well.
10 Are there going to be any other exhibits or can
11 we just get that out of the way right now?

12 MR. SPEIDEL: There will be a couple
13 of ancillary exhibit matters. One page
14 replacement, substitution within our primary
15 exhibit, and also an additional exhibit.

16 CHAIRMAN HONIGBERG: In terms of the
17 order of things, are those things going to come
18 in while Liberty's witnesses are testifying or
19 is not till after you go?

20 MR. SPEIDEL: No, when Mr. Knepper
21 will be testifying.

22 CHAIRMAN HONIGBERG: All right. So,
23 Exhibit 2 is going to be the Staff's submission
24 of June 6th?

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 MR. SPEIDEL: Yes.

2 MR. SHEEHAN: If I may interrupt, I
3 have some extra things that came in today. We
4 received Mr. Knepper's testimony Monday
5 afternoon, and we have some responsive
6 documents that I will introduce through
7 Mr. MacDonald.

8 CHAIRMAN HONIGBERG: All right.
9 Then, we won't mark anything else until then.
10 That's fine.

11 Any other preliminary matters?

12 MR. SHEEHAN: That's all.

13 CHAIRMAN HONIGBERG: All right.
14 Mr. Sheehan, why don't you have your witnesses
15 take the stand.

16 MR. SHEEHAN: Sure. The Company
17 calls David Simek, Ian Crabtree, and Richard
18 MacDonald.

19 (Whereupon **David B. Simek,**
20 **Ian T. Crabtree,** and **Richard G.**
21 **MacDonald** were duly sworn by the
22 Court Reporter.)

23 CHAIRMAN HONIGBERG: Mr. Sheehan, you
24 may proceed.

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 MR. SHEEHAN: Thank you.

2 DAVID B. SIMEK, SWORN

3 IAN T. CRABTREE, SWORN

4 RICHARD G. MacDONALD, SWORN

5 DIRECT EXAMINATION

6 BY MR. SHEEHAN:

7 Q. I'll begin with Mr. Simek. Your name please
8 and your position with the Company.

9 A. (Simek) My name is David Simek. And I am a
10 Lead Utility Analyst within the Regulatory
11 Group.

12 Q. And you prepared testimony in this case?

13 A. (Simek) Yes, I have.

14 Q. And what was the purpose of your testimony in
15 this case?

16 A. (Simek) To provide rate-related services and to
17 provide the revenue requirement calculation.

18 Q. Do you have any changes to your testimony?

19 A. (Simek) I do.

20 Q. And that is what?

21 A. (Simek) If we could go to Bates Page 060, at
22 the bottom of the page, where we have the
23 footnotes, the very first footnote references
24 "Line 20", and it should reference "Line 18".

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 And, then, the same change needs to be made to
2 Bates Page 065.

3 And those are the only changes I have.

4 Q. Other than those changes, is the testimony that
5 you -- the testimony that's filed in this
6 docket, was that prepared by you?

7 A. (Simek) Yes, it was.

8 Q. And, other than those changes, if the same
9 questions were asked, would you give the same
10 answers?

11 A. (Simek) Yes.

12 Q. Mr. MacDonald, your name and position with the
13 Company please.

14 A. (MacDonald) Yes. I'm Richard MacDonald. I'm
15 the Director of Gas Operations for Liberty
16 Utilities. And my office is based out of
17 Manchester, New Hampshire.

18 Q. And, in this case, you're adopting the
19 testimony of Ms. Cassetty, is that correct?

20 A. (MacDonald) That is correct.

21 Q. And, obviously, then you did not prepare that
22 testimony, is that correct?

23 A. (MacDonald) That is correct.

24 Q. Have you reviewed that testimony?

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 A. (MacDonald) I have.

2 Q. And are you prepared to adopt the testimony
3 that Ms. Cassetty provided?

4 A. (MacDonald) I am.

5 Q. And are there any changes that you need to
6 make, other than your name, to adopt that
7 testimony?

8 A. (MacDonald) No changes.

9 Q. So, if I were to ask you the questions
10 contained in Ms. Cassetty's testimony, your
11 answers would be the same as hers?

12 A. (MacDonald) It would be.

13 Q. Thank you. And, Mr. Crabtree, your name and
14 position with the Company please.

15 A. (Crabtree) Ian Crabtree. I'm a Senior Engineer
16 at Liberty Utilities.

17 Q. And did you prepare testimony in this case?

18 A. (Crabtree) Yes.

19 Q. And what was the general purpose of your
20 testimony?

21 A. (Crabtree) I prepared the CIBS Program. I do
22 the analysis and prioritization, selection of
23 the projects, pretty much everything before it
24 goes out to construction.

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Q. And you prepared testimony for this case?

2 A. (Crabtree) Yes.

3 Q. And do you have any changes today to your
4 testimony?

5 A. (Crabtree) No.

6 Q. So, if I asked you the same questions in your
7 testimony, would the answers you give today be
8 the same as in the written testimony?

9 A. (Crabtree) Yes.

10 Q. Mr. Knepper filed testimony in this docket on
11 Monday afternoon. Have all three of you had a
12 chance to review that testimony?

13 A. (Crabtree) Yes.

14 A. (Simek) Yes.

15 A. (MacDonald) We have.

16 Q. And I'd like to ask each of you a couple
17 questions in response to some of the things in
18 Mr. Knepper's testimony. First, Mr. Simek, you
19 are aware that Mr. Knepper's testimony talks
20 about the carryover costs?

21 A. (Simek) Yes.

22 Q. And the Company had requested recovery for all
23 of the costs, including all of the carryover
24 costs, is that correct?

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 A. (Simek) Yes.

2 Q. And is that the number that is contained in the
3 original filing the Company's request to
4 recover all of the costs?

5 A. (Simek) It is. On Bates Page 060, it shows on
6 Line 39 the "\$214,434" that we are looking to
7 collect through an annual revenue requirement.

8 Q. And, again, that includes all of the carryover
9 costs?

10 A. (Simek) It does.

11 Q. And did you, understanding that there's going
12 to be this conversation over carryover costs,
13 did you prepare another number that would be
14 the Company's request absent the excess
15 carryover costs?

16 A. (Simek) Yes. The excess carryover costs over
17 the 5 percent?

18 Q. Correct.

19 A. (Simek) Yes, I did. And that was part of a
20 data request that was requested by Commission
21 Staff. And the amount that was removed was
22 "\$514,440", which changed the revenue
23 requirement to \$161,000 -- \$161,010.

24 Q. And can you tell us what the customer rate

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 impacts would be for those two, the with and
2 without the carryover costs?

3 A. (Simek) Yes. With the carryover costs, the
4 annual rate impact for a typical residential
5 customer is \$1.00. With the excess carryover
6 costs removed, the annual rate impact for a
7 typical customer is 75 cents.

8 Q. And, again, that's annual?

9 A. (Simek) That's annual.

10 Q. Thank you, Mr. Simek.

11 A. (Simek) You're welcome.

12 Q. Mr. Crabtree, there's a section in Mr.
13 Knepper's testimony that talks about the soil
14 testing that the Company performs of the soil
15 surrounding some of the pipe that is removed.
16 Do you recall that?

17 A. (Crabtree) Yes.

18 Q. And you recall that this was an issue that
19 was -- that the Company raised in last year's
20 CIBS filing?

21 A. (Crabtree) Correct.

22 Q. And Mr. Knepper's testimony asks or suggests
23 that he's not clear whether, in this case, the
24 Company is seeking to change that or not. Do

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 you recall that reference in Mr. Knepper's
2 testimony?

3 A. (Crabtree) I do, yes.

4 Q. And is the Company seeking any change in the
5 way it tests and does the soil samples?

6 A. (Crabtree) No. No, it does not.

7 Q. To the extent your testimony talks about the
8 soil samples, it is merely to provide the
9 information?

10 A. (Crabtree) Correct.

11 Q. There's also a discussion in both -- in all
12 testimony about the number of new customers
13 that the Company acquired through the CIBS
14 Program. Are you familiar with that, Mr.
15 Crabtree?

16 A. (Crabtree) Yes.

17 Q. And, last year, the Company acquired, I
18 believe, 17 new customers out of 45 possible
19 non-gas customers. Does that sound correct?

20 A. (Crabtree) Yes.

21 Q. And, this year, the number was four new
22 customers out of a possible 59 non-gas
23 customers?

24 A. (Crabtree) Yup.

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Q. Are you aware of whether there was any material
2 difference in the marketing programs and
3 efforts the Company undertook between last year
4 and this year?

5 A. (Crabtree) No. To my understanding, it was
6 pretty much the same thing that they did the
7 year prior.

8 Q. And do you or you, Mr. MacDonald, have a
9 possible reason for the difference in the
10 success rate, if you will, of customer
11 conversions?

12 A. (MacDonald) There's a lot of variables. We
13 have to remember that, you know, we're
14 soliciting customers -- homeowners that are
15 along our lines that currently do not have gas.
16 And, you know, we have, you know, a high
17 percentage rate along our lines of where the
18 customers are in these areas. I think, you
19 know, in a lot of cases, you know, it's a
20 preference of fuel choice for a lot of these
21 customers. And, in my opinion, you know, with
22 the price of fuel oil, where it was at last
23 year and where it is today, you know,
24 incentivewise, there's only so much we can do

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 to incent customers to convert over.

2 Q. All right. In the technical session in this
3 case, there was some discussion about a
4 possible change to our tariff, which we're not
5 proposing today, but as a discussion point,
6 that may help with converting these customers.
7 Can either of you speak to that briefly?

8 A. (MacDonald) Yes. You know, what we're
9 considering or what we could consider, in
10 working with Staff, is, on these projects,
11 amend our tariff, you know, to offer, you know,
12 free service lines, provided we get, you know,
13 one appliance connected, whether it be a stove,
14 a water heater or a space heater, you know, to
15 get the customer established. And, then, you
16 know, as the fluctuations of other competitive
17 fuel costs vary, and we all know at some point,
18 well, none of us would be surprised if fuel oil
19 went back up in cost, that there would be
20 incentive, you know, for those customers to
21 convert. And having that service there, and
22 not going back to disturb that road later on, I
23 think Staff would agree that, you know, it's
24 worthy to consider and try to add that to the

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 mix, as far as trying to expand the new
2 customers.

3 Q. Right now, the Company's tariff will provide a
4 free service of a certain length only if the
5 customer becomes a heating customer, is that
6 correct?

7 A. (MacDonald) Right. There's a, you know, a rate
8 of return requirement, which really
9 necessitates a conversion of their heating
10 system.

11 Q. And, so, this idea is to essentially have a
12 conversion that is not cost-effective at the
13 outset, but the hope is it would be down the
14 road?

15 A. (MacDonald) Yes.

16 Q. On the carryover issue, Mr. MacDonald, could
17 you at least, in two or three sentences, just
18 explain what "carryover" is? I think we all
19 know, but just to get it out there.

20 A. (MacDonald) Okay. So, "carryover costs", you
21 know, as presented in all of the documents and
22 testimony, basically, it boils down to
23 permanent final restoration of the streets that
24 we construct our new lines under. You know,

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 when we get into the fall, you know, we're
2 restricted by, you know, various municipal
3 requirements and rules.

4 Q. And we'll get into those in a minute.

5 A. (MacDonald) But, basically, it's paving that
6 occurs for work completed in the prior year, to
7 final restoration in the following year.

8 Q. And all of the carryover costs at issue here,
9 as in past years, is for just final paving, is
10 that correct?

11 A. (MacDonald) Yes.

12 Q. So, in the calendar year that we're addressing,
13 all of the pipe at issue had been replaced, all
14 the services connected, and all of the
15 preliminary paving has been done, is that
16 correct?

17 A. (MacDonald) Yes. All of the facilities are
18 used and useful, are activated, and customers
19 have been switched over to these lines within
20 that calendar year of that program.

21 Q. And we know, from the history of this issue,
22 that it's Staff's preference, and it's in the
23 Settlement Agreement, that we make every effort
24 to finish the paving in the calendar year, is

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 that correct?

2 A. (MacDonald) That is correct.

3 Q. And, in fact, the Settlement Agreement has this
4 incentive, if you will, that the Company cannot
5 recover in one year any carryover that exceeds
6 5 percent?

7 A. (MacDonald) Correct.

8 Q. And, that's -- and, in this case, we've asked
9 for recovery of that amount that exceeds the
10 5 percent?

11 A. (Witness MacDonald nodding in the affirmative).

12 Q. Now, Mr. Knepper, in his testimony, lists a
13 number of reasons, I believe eight, why he
14 thinks -- why he has decided not to recommend
15 or approve the carryover in this case. And I'd
16 like to go through a few of them briefly.

17 The first that Mr. Knepper mentions is the
18 city policies. And can you explain to me how
19 various city policies affect the Company's
20 ability to do the final paving in the calendar
21 year?

22 A. (MacDonald) Well, each city has a construction
23 standards, and those are, you know, reference
24 points for work that occurs out in their

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 streets. Within the permitting and excavation
2 permitting processes and rules and regs, each
3 city, and, in particular, Concord and
4 Manchester, they do not allow finished paving
5 to occur after November 15th. On top of that,
6 they restrict paving restoration when the
7 temperature falls below in the ambient of 50.
8 You know, and I realize, in review of Randy
9 Knepper's testimony, that, within the
10 construction standard, there are standards that
11 towns have regarding the temperature of the
12 asphalt, when it's on the truck, before it's
13 laid down, and the surface temperature of the
14 roadway, as well as the ambient temperature.
15 However, when -- the reality is, when we're out
16 in the field, and we're working with city
17 inspectors, roadway superintendents, they have
18 a rule of thumb, if you will, and/or a best
19 practice that occurs, you know, from Nashua, up
20 through Concord, and the State of New
21 Hampshire, that they do not allow us or do not
22 want us laying asphalt when the temperature
23 falls below 50 degrees. And that's kind of
24 a -- you know, that's the rules that we deal

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 with from town to town to town.

2 Now, the City of Nashua, specifically, has
3 a requirement that, when the temperature is
4 below 40 degrees, it's temporary, you know,
5 pavement restoration only.

6 So, when we get into that situation, and
7 we're not allowed or able to restore --
8 permanently restore some of these trenches, it
9 causes a backup and a carryover.

10 Q. So, you've mentioned a hard stop for the cities
11 of November 15th for final paving, and the
12 issue that temperature causes for final paving
13 as the season gets colder. At the beginning of
14 the construction season, what limits are there
15 on you that may prevent you from starting the
16 work as soon as you would like to help finish
17 in the calendar year?

18 A. (MacDonald) So, in the City of Manchester and
19 Concord and Nashua, Manchester has published
20 standards, but they will not be issuing or they
21 do not issue permits, you know, for, you know,
22 planned work, if you will, such as the CIBS
23 work, until all of our winter excavation
24 activity, you know, from that winter of that

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 year, you know, from leak repairs and for other
2 necessary excavations that occur, they all have
3 to be cleaned up or down to a certain patch
4 level. And, I believe, in Manchester, the
5 number is ten or below before they would start
6 issuing permits on a regular basis.

7 So, if we have a very cold winter, and we
8 have a lot of excavations out there, that can
9 sometimes, you know, delay the start of the
10 work that we would like to get done. Also,
11 with the temperature, you know, restriction at
12 the beginning of the year, and as occurred this
13 year, because we did have some cold months in
14 March and April, they restricted, you know,
15 permanent restoration, you know, or extended
16 the period out for permanent restoration.

17 Q. So, you just mentioned two things that can
18 delay the start. One is, you have to finish
19 the final patch of all your winter patches?

20 A. (MacDonald) Yes.

21 Q. And, second, if it's cold in the spring, you
22 run into that 40 or 50 degree issue as well?

23 A. (MacDonald) Yes.

24 Q. Is there another -- does the city place any

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 requirements on you to do work before, their
2 work or somebody else's work, before you can do
3 your work?

4 A. (MacDonald) Yes. So, all of these cities have
5 municipal infrastructure improvement projects.
6 And, in a lot of cases, they're out in areas
7 encroaching, you know, our cast iron and/or
8 bare steel facilities, as well as, you know,
9 the current facilities. But, you know, so, we
10 have to get out or send our crews out to those
11 projects, at the beginning of the year, you
12 know, to get our lines replaced ahead of their
13 construction, you know. And, you know, there's
14 politics that goes on in these communities from
15 time to time, and they understand that they,
16 you know, they would like to get us -- get our
17 crews and resources committed to their projects
18 ahead of the work that they know that we have,
19 so that their needs are served, you know, first
20 in line, if you will.

21 Q. Okay. The second item that Mr. Knepper
22 mentioned was that the Company "deliberately
23 stretched", in quotes, out to keep -- the work
24 out to keep its crews busy for the whole year.

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Can you explain what the Company does, how it
2 manages its work crews during the course of the
3 year and why?

4 A. (MacDonald) Yes. The Company -- we develop a
5 work plan, once the CIBS Program, or Ian has
6 finished his, you know, analysis on, you know,
7 the streets that we're going to go in and start
8 these replacement projects on, and we've
9 identified all of the municipal infrastructure
10 projects that require, you know, resources, to
11 go out and either relocate or replace our
12 facilities, along with anticipated growth
13 projects and forecasts, you know, we compile
14 all of that work, you know, the service
15 replacements, the new services, the main
16 extensions, all of this main replacement, we
17 compile all of that. And, at that -- at a
18 process level, we determine what the crew
19 requirements are, you know, for the work that
20 we have in front of us, and what we forecasted
21 in, you know, as far as growth targets, and we
22 identify the number of crews that we need.

23 So, we manage the construction program at
24 Liberty, not just on CIBS, but we manage it for

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 that process, the municipal infrastructure
2 projects that are going on, the growth
3 opportunities and projects that the Company,
4 you know, is pursuing. Also, you know, we have
5 capital programs for random service
6 replacements, for either condition or that they
7 may be leaking. You know, all of this work
8 produces or we need to determine what available
9 resources we need. And it gets -- and we
10 manage it, you know, all of these projects or
11 processes with the identified number of crews.

12 Q. Why not hire twice as many crews, get it all
13 done by August?

14 A. (MacDonald) Contractors are looking for
15 commitment, you know, from the Company, in
16 partnership to, when they provide us with a
17 crew, they would like to see that crew come
18 onto the property of Liberty and its programs
19 in April, and they would like to keep that crew
20 there until December, when construction season
21 starts -- or, when the construction season
22 ends.

23 You know, the contractor community within
24 the Northeast and New England, you know, is

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 very competitive. There are our peer
2 companies, our peers out there that have
3 similar programs, as far as infrastructure
4 replacement, and we're all competing for the
5 same resource pool.

6 If we were to have or force contractors in
7 or bring in crews for a shorter period of time,
8 you know, say, from June to the end of August,
9 it's very, you know, impossible to sometimes
10 get those resources, or the contractors are
11 reluctant to provide those resources where they
12 can take that same crew and, you know, allocate
13 them to a company like National Grid for the
14 entire year.

15 Q. So, it's a way of retaining the crews?

16 A. (MacDonald) Yes. Retention of qualified crews
17 and, you know, having a balance of resources
18 that the Company needs and, you know, making a
19 commitment to our contractor partners to keep
20 these folks in our system through the entire
21 construction season.

22 Q. Now, you've described a November 15 hard stop
23 for finished paving, yet you also described the
24 crews working into December. What work can the

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 crews do through December?

2 A. (MacDonald) We can continue to perform CIBS
3 work, growth work, sometimes we have crews
4 working on city/state. So long as the -- you
5 know, the weather and the temperatures are out
6 there where we can do temporary restoration,
7 they'll allow us to continue our growth and
8 replacement programs up until, you know, the
9 weather gets really cold, we get, you know, a
10 measurable amount of snow on the ground. Some
11 communities, you know, when the first inch
12 falls, we're done for the year. They just
13 don't want us out there.

14 But, you know, we have had seasons where
15 we've gone right till December 31st, you know,
16 with construction. And we do maintain maybe
17 one or two contractor crews during the winter.
18 It all depends on the weather and, you know, we
19 have subdivision developments that require
20 servicing, as far as putting services in.

21 Q. How early would you have to stop doing CIBS
22 construction in order to have the paving all
23 done, the final paving all done in that year?

24 A. (MacDonald) We would have to stop, the latest

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 date would be September 30th. Because, when
2 you consider, with some of the communities
3 having a 30-day settlement period, you know, we
4 need time, from a close or the end of a
5 project, to allow a settlement period, and time
6 before November 15th, you know, to do the
7 actual restoration work. So, that would put us
8 at -- it would leave us two weeks or, you know,
9 to the beginning of November, you know, to
10 finish up the restoration work. In a lot of
11 cases, though, you know, in looking at that
12 requirement, it's really -- we should be
13 focusing on closing up the work on, you know,
14 during the month of September.

15 Which, you know, when you look at the
16 construction season, you know, the construction
17 season here in New Hampshire runs from, you
18 know, mid to end of April to December, and I
19 say "December", really, anything beyond
20 November 15th is weather-permitting and
21 municipal, you know, allowances or cooperation.
22 So, trying to finish up all this work that we
23 have, you know, in early September, that
24 shortens the construction season by two more

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 months.

2 Q. Another item that -- a reason that Mr. Knepper
3 gave for not allowing the recovery of the costs
4 is he cited three projects that were done,
5 apparently, early in the year, and which begged
6 the question "why weren't those finish paved by
7 the end of the year?" And, in particular,
8 Project Number 2 was apparently done in June;
9 Project 4, the middle of August; and Project 5
10 in early September. Either of you, Mr.
11 Crabtree, Mr. MacDonald, can you explain to us,
12 if you know, why those particular projects were
13 not finish paved in 2015?

14 A. (MacDonald) Okay. So, one of the things that
15 we're doing is trying to partner with some of
16 the cities on reducing restoration costs. And,
17 on those streets, in those particular jobs, and
18 I was actually out there a couple of weeks ago
19 with a contractor, what we -- we started a
20 pilot program with the City of Concord on a
21 restoration alternative to their current
22 standard, which would, you know, at a high
23 level, their standard is to do a 2-foot cutback
24 and replace all of the asphalt in kind, along

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 with, you know, saw-cut/diamond-cut patches.
2 What we proposed with Concord, on a couple of
3 jobs, those jobs in particular, is to do a
4 grind and inlay process, where we are trying to
5 get away from doing temporary, you know,
6 asphalt restoration, and putting in, you know,
7 five inches of, you know, of a course material
8 flush with the, you know, the street line, and
9 then working with the town on an appropriate
10 settlement period. You know, and the 30-day --
11 we did one project with a 30-day settlement
12 period, and I believe we had some settlement
13 occur the following year.

14 But, basically, you know, we do a binder
15 flush, then we bring in paving grinders. We
16 have a contractor that has grinding equipment,
17 and we'll grind a strip all the way up through
18 the project to kind of -- to clean off all of
19 the asphalt, you know, really mask off or --
20 all of the pavement cuts that you would see
21 normally on a street is, you know, they're all
22 hidden beneath a wearing course overlay.

23 This process does save the Company money.
24 The towns like it. The cities are asking, you

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 know, if we're going to continue this process,
2 to allow these trenches and excavations to go
3 through a freeze/thaw cycle. That's where
4 we're at with the City of Concord.

5 We're going to be pursuing this with
6 Manchester and Nashua. Nashua is, you know,
7 the next city that we would like to propose
8 this, you know, restoration process, 'cuz it
9 means, you know, a sizable savings on
10 restoration. And, when we're done, you know,
11 the street looks -- we leave the street in
12 better condition than what it was before we
13 started.

14 Q. So, as I understand the process, this grind and
15 inlay allows you to dig a smaller hole through
16 the street, repair it, and then come back and
17 grind and do the final paving, which, as you
18 say, ends up in less work, less pavement, less
19 degradation fees, and a better outcome?

20 A. (MacDonald) Right.

21 Q. Now, going back to three jobs that Mr. Knepper
22 identified, how does this grind and inlay
23 process relate to them?

24 A. (MacDonald) Well, for those particular jobs,

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 you know, we didn't have to do a 2-foot
2 cutback. So, under that process, you would
3 excavate the street. When it came time for
4 final restoration, the current standards in
5 Manchester and Nashua -- Concord are to dig --
6 saw-cut back beyond the trench two feet either
7 side, dig out that asphalt, it might be
8 4 inches thick, it might be 10 inches thick,
9 and put back that extended -- or, the
10 restoration trench would be that extended
11 width, you know, of that cutback. There's a
12 lot more asphalt material, a lot more, you
13 know, equipment and labor costs, you know, to
14 do that type of restoration. And, in some
15 cases, you know that cutback is, at least on
16 one side of the trench, you know, it might be
17 more than two feet, because, if we're near the
18 curb line, the cities require us to remove the
19 asphalt all the way out to the curb line.

20 Q. But the question, Mr. MacDonald, is, those
21 three projects that weren't finished in the
22 middle of 2015, and you started to describe
23 that these were part of that inlay process.

24 A. (MacDonald) Yes.

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Q. So, why weren't they finished in 2015?

2 A. (MacDonald) The City had asked us to let them
3 go through a freeze/thaw cycle.

4 Q. So, the City asked you to wait till the next
5 year?

6 A. (MacDonald) Yes.

7 Q. Because they wanted them to settle more?

8 A. (MacDonald) Yes.

9 Q. Last, Mr. MacDonald, Mr. Knepper critiqued the
10 Company for not replacing as much bare steel
11 last year as we initially proposed, and we did
12 what we did. Can you give us any update as to
13 the current season? I think we propose seven
14 or eight miles of CIBS replacement. And, as
15 best you can now, can you let the Commission
16 know how we're doing on that?

17 A. (MacDonald) You know, as far as the change and
18 reduction?

19 Q. No. What -- Mr. Crabtree, do you know the
20 exact number that we proposed to replace this
21 year?

22 A. (Crabtree) It's about nine miles.

23 Q. And can you -- and I assume that work is
24 underway now?

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 A. (Crabtree) Yes.

2 A. (MacDonald) It is.

3 Q. And my question is simply, can you give us an
4 idea, does the Company expect to meet the nine
5 miles this year?

6 A. (MacDonald) We do. And, at this particular
7 moment in time, you know, the 13 -- or, 11
8 crews that we have out there on main
9 construction projects, 7 of them are on CIBS.

10 MR. SHEEHAN: Thank you. I have no
11 further questions. They're available for
12 cross-examination.

13 CHAIRMAN HONIGBERG: Mr. Speidel.

14 MR. SPEIDEL: Thank you, Mr.
15 Chairman. These questions will be directed at
16 mostly Mr. MacDonald.

17 **CROSS-EXAMINATION**

18 BY MR. SPEIDEL:

19 Q. Just off the top, in line of -- in light of
20 what Mr. Sheehan was asking you about a pilot
21 program for the tar replacement that fed into
22 some of these Concord projects that Mr. Knepper
23 referenced in his testimony.

24 A. (MacDonald) Uh-huh.

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Q. Was there any mention of this pilot program to
2 try to modify the approach to repaving within
3 the Company's testimony and materials that
4 you're aware of?

5 A. (MacDonald) No, there wasn't.

6 Q. Okay. In general terms, have any of the
7 factors that tend to feed into late completion
8 or carryover completions of projects, change --

9 A. (MacDonald) Could we go back to that question?
10 Ian, would you reference the mention of the
11 paving restoration.

12 A. (Crabtree) Yes. It's Bates Page 13, Lines 8
13 through 11, of Cassetty and Crabtree testimony.

14 Q. So, that's a general mention, but it wasn't
15 tied into the completion dates of these
16 specific projects?

17 A. (Crabtree) No. Those completion dates got
18 brought up on Mr. Knepper's testimony that was
19 given to us Monday afternoon.

20 MR. SPEIDEL: Just one moment please.

21 (Atty. Speidel conferring with
22 Director Knepper.)

23 MR. SPEIDEL: Okay. So, let's just
24 keep moving.

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 BY MR. SPEIDEL:

2 Q. All right. Mr. MacDonald, have any of the
3 factors that tend to lead to carryover costs
4 changed since the Company agreed to the
5 5 percent cap in the Settlement Agreement, or
6 have they always been in play?

7 A. (MacDonald) Carryover costs, you know, I've
8 been in the utility business for 38 years,
9 utilities always have carryover costs.

10 Q. Okay. But that's not the question I asked.
11 It's just, has the field of play changed
12 regarding carryover costs since the time that
13 the 5 percent cap was agreed to by the Company?
14 Is there anything new that really has hit the
15 Company in the last few years?

16 A. (MacDonald) No, not that I'm aware of. You
17 know, the conditions, the variables that we
18 work under, with the Commission and with the
19 municipalities, you know, in managing this
20 program and others, those -- nothing's changed.

21 Q. Okay.

22 A. (MacDonald) Nothing substantial has changed, to
23 answer your question.

24 Q. Thank you. So, there's a few questions I'd

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 like to ask about ways that maybe carryover
2 costs could be limited. Because I think, not
3 to restate Mr. Knepper's testimony, but I think
4 he's kind of making points about ratemaking and
5 known and measurable costs and things like that
6 in his testimony. So, he's eager to reduce the
7 amount of carryover costs. Why not have more
8 paving crews on task to finish the job within a
9 given spring and summer?

10 A. (MacDonald) Well, it's a matter of availability
11 and, you know, it's a matter of competing for
12 resources. And, in the last quarter of the
13 year, cities, towns, other contractors, other
14 companies are competing for paving resources.
15 Even, you know, builders and, you know,
16 homeowners, who want their driveways rebuilt or
17 paved. Asphalt restoration, in the last
18 quarter of the year, it's a supply-and-demand
19 issue.

20 Q. So, in your view, there could be, in theory,
21 would you think that say adding monetary
22 sweeteners to attract the contractors, would
23 that tend to work? Or is it simply that
24 they're just not available?

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 A. (MacDonald) You mean, offer to pay more money
2 for --

3 Q. Yes.

4 A. (MacDonald) -- for paving restoration?

5 Q. Yes.

6 A. (MacDonald) Well, that's not something that I
7 would do, you know, as far as increasing costs
8 to our ratepayers on paving restoration.

9 Q. Well, isn't there a carrying charge associated
10 with carryover costs that move from year to
11 year? What if you were to spend a little bit
12 more money within a given paving season to
13 complete the tasks within one year, and not
14 worry about doing it in the next year?

15 A. (MacDonald) As I said, it's a resource issue
16 and it's a compete -- it's a competition or
17 competing for those resources to get that work
18 done.

19 Q. So, what about --

20 A. (Simek) Can I pipe in for a second please?

21 Q. Sure.

22 A. (Simek) My understanding of the program,
23 really, the incentive is to get the pipe
24 replaced in the ground for safety reasons.

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Q. Uh-huh.

2 A. (Simek) And, really, the incentive, other than
3 what we're talking about, this 5 percent
4 carryover, really has nothing to do with the
5 actual replacement of the pipe and the safety
6 issue. So, I also don't understand why we
7 would potentially pay extra just to get it done
8 a couple months earlier, and then, of course,
9 have that money bear down to our customers.

10 Q. Well, you see, I think what Staff has tried to
11 ask is, we have this ongoing chronic issue with
12 the CIBS Program of carryover costs. And our
13 questioning is designed to probe the issues of
14 resource availability.

15 A. (Simek) Oh, I understand.

16 Q. Because it's just a constant thing every year,
17 it seems. So, that's why we're asking about --

18 A. (Simek) Yes. I'm not sure "chronic" is
19 necessarily the best term to use. We've had
20 carryover over 5 percent, --

21 Q. Uh-huh.

22 A. (Simek) -- which continuously has been going on
23 over the past six or seven years.

24 CHAIRMAN HONIGBERG: All right.

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 There's kind of an argument going on now
2 between the two groups.

3 WITNESS SIMEK: Okay.

4 CHAIRMAN HONIGBERG: So, Mr. Speidel,
5 why don't you ask another question, and I think
6 we can move them along.

7 MR. SPEIDEL: Yes.

8 BY MR. SPEIDEL:

9 Q. So, we've received an answer that monetary
10 inducement, in the Company's view, is not a
11 path to encouragement of completion within a
12 single year. Is that fair to summarize?

13 A. (MacDonald) It's not something we have or would
14 consider, in my opinion.

15 Q. Okay. Good. Just wanted to clarify that. So,
16 another possibility is why not seek contractors
17 from outside the immediate region? Is there a
18 possibility that Canadian or New York State or
19 Pennsylvania contractors could come in and do
20 some of this work to complete it within a
21 single year?

22 A. (MacDonald) We try to use contractors that --
23 well, the contractors that we use, or the
24 contractors that are within the area, you know,

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 New Hampshire, New England, Massachusetts,
2 Maine, you know, a lot of the municipalities,
3 you know, expect a certain level of quality and
4 workmanship on their streets. And, you know,
5 going off to Canada or, you know, Pennsylvania,
6 whatever, you don't know what you're getting.
7 And you don't know what you're getting, as far
8 as quality and workmanship, until after the
9 work is performed. And there could be
10 potential there, you know, to cause some
11 issues, you know, with the certain towns that
12 we work in.

13 You know, most of the municipalities and
14 the state, you know, they're aware of these,
15 you know, the contractors that perform that
16 function and aware of the kind of workmanship
17 that they're going to get. And, to me, that's
18 what I would be worried about in doing
19 something like that.

20 Because I think, you know, fix -- you
21 know, bringing unknowns into the system to
22 clean up asphalt restoration like that, that's
23 a potential fallout. And we're very concerned
24 about the quality, in how these streets look

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 when we're done and gone. Because, you know,
2 the public and our customers, that's what they
3 see. They see that final restoration trench
4 line and our work. And we, you know, want to
5 leave that street in better condition than when
6 we -- before started it.

7 Q. Okay. So, there's a few questions, they could
8 be addressed to Mr. Simek I think would
9 probably be the best party to answer these
10 questions.

11 Has Staff ever objected to recovery of
12 carryover costs above 5 percent in previous
13 CIBS proceedings to your knowledge?

14 A. (Simek) Not to my knowledge.

15 Q. Okay. Does Liberty intend to file a full rate
16 case in 2017?

17 A. (Simek) Yes.

18 Q. Will Liberty seek recovery of the CIBS
19 carryover costs above 5 percent in that filing
20 if they are not approved as part of this
21 filing?

22 A. (Simek) Yes.

23 Q. If the recovery of these costs are allowed as
24 part of the 2017 rate case, will there be a

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 delayed recovery of approximately one year?

2 A. (Simek) Yes.

3 MR. SPEIDEL: Thank you. Just one
4 moment please.

5 *(Atty. Speidel conferring with*
6 *Director Knepper.)*

7 MR. SPEIDEL: We have no further
8 witnesses -- questions for these witnesses.
9 Thank you very much.

10 CHAIRMAN HONIGBERG: Commissioner
11 Scott.

12 CMSR. SCOTT: Thank you. Good
13 morning. And my normal caveat is, whoever
14 feels free, please -- whoever feels can best
15 answer my questions, please do so.

16 BY CMSR. SCOTT:

17 Q. I think I'll start with the Crabtree/Cassetty
18 testimony. If you go to Bates 007, Line 15. I
19 may have written this down wrong. I did write
20 it down wrong. Hold on a second. Yes. I'm on
21 the wrong -- you're on the right page, I'm on
22 the wrong page. How's that?

23 CHAIRMAN HONIGBERG: Right page,
24 wrong document.

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 CMSR. SCOTT: That's right.

2 BY CMSR. SCOTT:

3 Q. You mentioned "new contractor bid unit
4 pricing". I was curious, could you elaborate
5 what that means a little bit more? Do you see
6 that?

7 A. (MacDonald) In 2015, we restructured our
8 construction contracts. The contract that
9 Liberty had at the time was a legacy National
10 Grid contract, and it was cumbersome, and it
11 had a high number of bid units. So, we
12 restructured those contracts. And we also, as
13 so far -- insofar as securing resources,
14 offered a extended contract period of five
15 years, is what we put out to bid, with a
16 two-year extension agreeable to both parties.
17 And we locked in three separate contractors for
18 that period of five years, so that we are
19 securing resources from more than one source
20 and have some flexibility, you know, to manage
21 the crew requirements for Liberty.

22 Q. And it begs the question, is it a more
23 economical price you're getting with them?

24 A. (MacDonald) It is. And I can say, and, in Mr.

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Knepper's testimony, he acknowledges that
2 Liberty has been successful in driving these --
3 some of these costs down. The costs from last
4 year, you know, were lower than the prior year,
5 and I'm hopeful that the contract that we have
6 is a factor for that. But it allows us to
7 manage, you know, those costs more efficiently,
8 and be more critical of bills or invoices as
9 they come in, as far as making sure that we're
10 paying for what those contracts bind us to.

11 Q. Thank you for that. And, then, if we go to the
12 next page, on Bates 008, Lines 4 through 12,
13 there's a mention of a "decision to reallocate
14 from CIBS to new construction". Can you
15 explain that a little bit more?

16 A. (MacDonald) Yes. As I had mentioned, you know,
17 we have our work plan and it forecasted, you
18 know, our crew requirements. There was an
19 increase in the anticipated growth work that
20 the Company had forecasted, and we needed to
21 reallocate some of those resources over to
22 these growth projects to accommodate those
23 agreements that the Company had secured with
24 those customers.

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Q. So, I heard, under questioning from Attorney
2 Sheehan, you say you felt confident you'd meet
3 nine miles next year? This year, I guess?

4 A. (MacDonald) This year.

5 Q. Yes, 2016. So, the implication would be that
6 there won't be a conflict between new
7 construction and CIBS this year?

8 A. (MacDonald) No. Because we, you know, we have
9 an aggressive, substantially higher growth
10 forecast than the prior year, our crew
11 requirements, you know, overall number into,
12 you know, 25 crews this year, we expect to have
13 a higher number than that. Right now, we're
14 at, you know, we're right at 17-18 crews, we
15 expect to be up to that number by July, and
16 probably beyond the 25 crews, to assure that we
17 get all of the work done this year.

18 Q. And, speaking of this year, we've, obviously,
19 had a very mild -- historically mild winter
20 this year. Did that allow you to start work
21 early?

22 A. (MacDonald) Maybe a week or so, you know, in
23 advance, you know, of when we normally would
24 start. You know, we still had winter

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 excavations, not as many, and we were hampered
2 a little bit by the cooler temperatures in the
3 months of March and April, when the cities
4 would typically allow us to go out and clean up
5 that work before they could issue permits.
6 There was a week or seven or eight days where
7 the paving -- our paving contractors were held
8 off until the temperatures did warm up.

9 Q. Moving to Bates 009, and, again, I do
10 understand the clarification that you all made
11 earlier that -- regarding soil sampling, that
12 you're not requesting any change, but
13 there's -- your testimony begs the question.
14 And, so, if I understood it right, you don't
15 see any real advantage to doing that. Is that
16 a fair assessment?

17 A. (Crabtree) There's no advantage, in my opinion,
18 to doing the microbiological testing on CIBS
19 projects. Because, essentially, we're
20 collecting data on bare steel mains that we are
21 abandoning. So, if there was a job that we
22 were tying into bare steel or leaving any
23 existence of bare steel, then maybe that would
24 be a benefit, so now we can see that, you know,

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 there's this -- you can test the amounts of
2 bacteria, knowing that there's still an active
3 piece of bare steel. But, with our program
4 growing the way it is, we don't, you know, we
5 don't tie -- we tie into plastic, and we re-lay
6 all the bare steel services. So, where we're
7 taking these tests, the bare steel is
8 essentially gone and deactivated. So...

9 Q. Are you seeing any evidence of soil conditions
10 impacting plastic?

11 A. (Crabtree) No. As to bacterial levels? No.

12 Q. Right. And that type of information doesn't
13 help you plan on where the next round of CIBS
14 replacement should be?

15 A. (Crabtree) No. The samples we take are soil
16 that are right, you know, adjacent to the
17 segment of bare steel that we dig up and cut
18 out. You know, the soil condition the next
19 street over could be entirely different. I
20 wouldn't rely on data that -- unless it was --
21 the sample was taken right next to the steel
22 pipe.

23 Q. So, I don't want to spend too much time on
24 this. So, how do you prioritize where you're

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 going to do the next set of CIBS replacements?

2 A. (Crabtree) Before, it was mainly driven by leak
3 history. But now that, since we're getting so
4 aggressive in this program and want to
5 eliminate it all in the next, you know, eight
6 years or so, by 2024, I'm really putting a
7 priority on the municipalities' paving, because
8 they do have a five-year excavation moratorium
9 after they pave the road. So, at some point,
10 when we're getting to the last couple of years,
11 that will really get us in a bind. So, I look
12 at the leak history, but, like I said, paving
13 takes a higher weighting. There's a couple
14 other factors of building consequences, you
15 know, for the hospital or the school nearby,
16 there's been several leaks, obviously, that
17 will take a priority. So...

18 Q. And you just alluded to my next question. So,
19 it's a great lead-in. Thank you. So, it
20 sounds like you feel very confident that you
21 can meet the 2024 deadline, despite not meeting
22 the goal this year -- or, last year, rather, is
23 that true?

24 A. (Crabtree) Yes. And, in -- let me see here --

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Bates Page 19 of my testimony, I provided a
2 chart that kind of shows the next eight years
3 out, and where we want to be and how many miles
4 we plan to do next year and the years after
5 that. So, we get, you know, up above 13 miles
6 a year after this year, and up until 2024,
7 where we'll reduce down and do the last few
8 miles. The last few miles I see, unless they
9 pose a problem in the near future, are going to
10 be the larger diameter cast iron, you know,
11 10-, 12-, 14-, 16-inch. And that is typically
12 more expensive to replace directly. So, we'll
13 probably consider other remediation processes
14 when we get to that point. So...

15 Q. Thank you. I want to go back to the
16 "freeze/thaw cycle" discussion, I think that
17 was Concord that was asking for that?

18 A. (MacDonald) Yes.

19 Q. Is that anticipated in the future? Is that the
20 new standard?

21 A. (MacDonald) I think that it will be. We're --
22 you know, this is a pilot, this is a -- this is
23 a big win for us, when it comes to reducing the
24 cost of restoration. And, you know, we're

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 partnering with the City on what is the best
2 way to go about doing this.

3 A. (Crabtree) And, if I could just mention
4 something, too, is, and it's probably the right
5 thing to do to have an actual freeze/thaw cycle
6 for a full settlement. That's how you're going
7 to get the best results. But that's also going
8 to guarantee you carryover costs into the next
9 year. So, this is a great reduction to our
10 normal restoration as it goes for costs. So,
11 what's more important? Reducing the cost of
12 the project or getting it all done in one year?
13 So, we're kind of battling that.

14 Q. So, that's only Concord right now. Are you
15 entertaining doing that in your other
16 municipalities? Are you being asked to do that
17 in other municipalities? Can you elaborate?

18 A. (MacDonald) Yes. The City of Nashua, we had a
19 meeting with them three weeks ago, and with the
20 paving contractor that does this for us, and
21 they want to see something in writing for us.
22 So, we are working on that, as far as trying to
23 get the City of Nashua to allow, you know, a
24 pilot program. The City of Manchester is, you

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 know, a little bit -- we're a little bit
2 hampered with the pending litigation that we're
3 going through with them, and they're reluctant
4 to do anything until that gets resolved.

5 But the City of Concord, even though
6 they're involved in that litigation, is very
7 open, you know, with us on, you know, working
8 with us.

9 And the City of Nashua, we hope to get at
10 least one or two projects done this year, so
11 that they, you know, can see the advantages of
12 it. Because it all comes down to public
13 disruption, you know, inconvenience, and then
14 "how does the street look like?" Or, "what
15 does the street look like after you're gone?"

16 Q. So, this all implies you're bearing the current
17 cost of, you've buttoned up for the year, your
18 final restoration is done within the calendar
19 year. You go through the winter, and stop me
20 where I go wrong, hopefully, and then, with
21 extra freeze/thaws, you're finding more
22 settlement. So, the implication is is now you
23 have to redo it again to --

24 A. (MacDonald) Well, it doesn't happen on every

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 project. But, you know, some towns and cities
2 over the years, on an *ad hoc* basis, has said to
3 us, you know, "why don't you let that set
4 through the winter and pave it" -- you know,
5 "do a finish pavement during the spring." Some
6 of the cities and towns on their own projects,
7 you know, have done that.

8 And, you know, another factor that comes
9 to mind that, when it comes to carryover costs,
10 you know, and it's more on the -- I guess you
11 could say it was part of the public works, but
12 a lot of the water companies, you know, are
13 replacing their infrastructure as well.
14 Sometimes they encroach our facilities, and we
15 end up having to go in and replace our
16 facilities as a result of that.

17 And, in some cases, over the years, we've
18 partnered -- the water company and the gas
19 company has partnered with the city's municipal
20 agencies to contribute costs towards a
21 permanent restoration of the streets. And, in
22 some cases, I can recall some times when they
23 have actually wanted the street to go through a
24 freeze/thaw cycle before a finish overlay on a

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 street where two utilities were, you know,
2 replacing their facilities on.

3 So, there are variables. Sometimes the
4 cities and towns will tell us "you need to let
5 it" -- "we want it to go through a freeze/thaw
6 cycle."

7 Q. So, more specifically, I guess what I'm trying
8 to ask is, are you -- failing that being done,
9 are you incurring costs because you have to
10 come back and redo it? Or is it more of an
11 aesthetic issue, that it's more acceptable to
12 the city, they get a better restoration result?

13 A. (MacDonald) They get a better restoration.
14 And, under this pilot program, where we don't
15 have to perform, you know, the cutback
16 excavation and all the extra work associated to
17 that, you know, we're giving them a better
18 product at a lesser cost. And it's
19 aesthetically, you know, the street looks much
20 better than it would otherwise under their
21 current restoration requirements.

22 Q. Thank you. And, I think, finally, there was a
23 discussion about, you know, "how can you incent
24 gas conversion along the CIBS project routes?"

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Do you have -- are there programs where, you
2 know, what I think I'm hearing, especially with
3 the low price of oil right now, it's hard to
4 get somebody to make the in-home conversion
5 costs. You have to convert your boiler or
6 whatever you're doing, is that correct?

7 A. (MacDonald) Yes.

8 Q. So, are there programs to, you know, allow me,
9 as a homeowner, if I want to do that, to defer
10 my cost -- and to kind of finance my cost
11 through my rate over some term? Or, you know,
12 what are the incentive programs you have? Are
13 there any special programs for those type of
14 people?

15 A. (MacDonald) Not that I may be aware of. But
16 we, you know, we do offer energy efficiency
17 incentives, you know, on equipment conversions.

18 A. (Crabtree) I'm not too keen on that type of --
19 that part of the business.

20 Q. That's fine.

21 A. (Simek) We also talked earlier about offering
22 our R-1 rate, potentially modifying our tariff,
23 so a service would be able to just sign up a
24 non-heating appliance, to just be able to get

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 the free service to be started. So, maybe,
2 when their furnace down the road needed to be
3 replaced, they'd switch it to gas.

4 CMSR. SCOTT: Thank you. That's all
5 I have.

6 CHAIRMAN HONIGBERG: Commissioner
7 Bailey.

8 CMSR. BAILEY: Thank you. Good
9 morning.

10 WITNESS MacDONALD: Good morning.

11 WITNESS CRABTREE: Good morning.

12 WITNESS SIMEK: Good morning.

13 BY CMSR. BAILEY:

14 Q. So, my understanding is that the Settlement
15 Agreement that you entered was to replace about
16 150 miles of CIBS in ten years? Is that right,
17 from 2014 to 2024?

18 A. (Crabtree) I don't think the specific range of
19 a ten-year plan was described in the Settlement
20 Agreement. It was just the program in place to
21 replace cast iron and bare steel.

22 Q. Well, is this all of your cast iron and bare
23 steel?

24 A. (Crabtree) Yes.

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Q. And was the 2024 target part of the Agreement?

2 A. (Crabtree) No. That's something that us and
3 Staff discussed, that, you know, we weren't
4 really replacing at a rate where we should be,
5 and I think it was looking 20-30 years out, and
6 I think that was a discussion we had, to kind
7 of get it down to ten years.

8 A. (MacDonald) As I recall, we made that
9 commitment in 2014.

10 Q. Okay. So, then, your plans developed to get it
11 all done by 2024?

12 A. (Witness Crabtree nodding in the affirmative).

13 Q. But, so far, you're behind what you planned?
14 You replaced less miles than you expected to in
15 first two years?

16 A. (Crabtree) Yes.

17 A. (MacDonald) Correct. Yes.

18 A. (Crabtree) And, we're kind of making up for it
19 in the following years down the road.

20 Q. Right. And that's, I guess, the nature of my
21 question, or my concern is, if you can't get
22 the early years done with the number of miles
23 that you anticipated, in the later years the
24 number of miles to be replaced is greater, how

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 are you going to get more miles done in the
2 later years, plus make up for the miles that
3 you didn't get done in the earlier years?

4 A. (MacDonald) Well, the miles in the earlier
5 years would be spread across, you know, the
6 remaining years.

7 Q. Right. But the remaining years already have
8 more miles than the early years.

9 A. (MacDonald) Right.

10 Q. So, how are you going to get --

11 A. (MacDonald) It's work plan management and
12 bringing the resources in, you know, to do the
13 work.

14 Q. The resources that -- are the resources that
15 you have to bring in to do the work primarily
16 the paving contractors or --

17 A. (MacDonald) Well, it's the construction
18 contractors. And our contracts that we have,
19 it's a turnkey process. The contractor that
20 does the excavation and replacement work does
21 the paving restoration.

22 Q. So, won't the same problems that you described
23 about "competing for crews" apply to getting
24 more crews to getting more miles done?

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 A. (MacDonald) Yes. We'll be competing for more
2 resources. And we are, you know, always
3 searching for additional, you know,
4 construction resources, you know, to bring into
5 the mix, you know, into the future. And, to
6 answer your question, yes, it's going to be a
7 challenge.

8 Q. So, what assurance can we have that you're
9 going to get this done, when each year so far
10 you haven't gotten what you anticipated you
11 would do done? Trust us?

12 A. (MacDonald) Yes. We do the best we can. You
13 know, and when Ian provides me with a nine-mile
14 work plan for CIBS, or requirement, you know
15 that gets managed, you know, with resource
16 requirements, along with everything else we do.
17 And we forecast the crew requirements, you
18 know, to bring that in to get that work plan
19 done. And, during the off seasons, we work to
20 secure those resources.

21 Q. But you have contracts in place that are
22 already out five years?

23 A. (MacDonald) Correct.

24 Q. Do the number of crews under those contracts

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 increase in the years in the future?

2 A. (MacDonald) Yes. And, within their -- within
3 our agreements, you know, we have minimum crew
4 numbers. And we're also able to, you know,
5 solicit additional contractors under that
6 system to, you know, bring them in under
7 contract, you know, to, if necessary, obtain
8 additional resources.

9 Q. So, the contract has a provision that allows
10 you to get additional resources from that
11 contractor?

12 A. (MacDonald) No. We would set up a contract
13 with an entirely different contractor, and put
14 them under the same agreement, but over a
15 different contract period.

16 Q. Oh. Okay. So, have you done that for this
17 year?

18 A. (MacDonald) We're looking at two specific
19 contractors right now.

20 Q. But they haven't -- you haven't contracted with
21 them yet?

22 A. (MacDonald) No. We'll bring them in, you know,
23 this year and see how they -- how they do for
24 us, and then expand, you know, their roles, you

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 know, in the following years.

2 Q. But they have availability and you're able to
3 get those resources?

4 A. (MacDonald) They have limited availability. We
5 would work with them to develop additional
6 availability, yes.

7 Q. How long does it take to replace one mile?

8 A. (MacDonald) At probably four weeks, just --

9 A. (Crabtree) Including services.

10 A. (MacDonald) -- without crunching the numbers,
11 you know, --

12 Q. Ballpark?

13 A. (MacDonald) Ballpark, about four weeks, maybe
14 five. It's not just replacing the pipe, you
15 know, the main itself. There's service lines
16 that are associated --

17 Q. Right.

18 A. (MacDonald) -- to that replacement. And, then,
19 you know, the permanent tie-over, and
20 abandonment of the older facilities. So, --

21 Q. But all that work gets done in about five
22 weeks --

23 A. (MacDonald) Five or six weeks, yes.

24 Q. Four, five, six?

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 A. (MacDonald) Four, five, six. It depends on how
2 much ledge we run into.

3 Q. Okay.

4 A. (Crabtree) A lot of factors that play into
5 that.

6 *[Court reporter interruption -*
7 *multiple parties speaking.]*

8 **BY THE WITNESS:**

9 A. (Crabtree) A lot of other factors tie into it,
10 too. It's, you know, main size, if you're
11 putting a two-inch main in, you can get a lot
12 more of that, you know, a lot more footage in a
13 day than if it was an eight-inch main. Number
14 of tie-ins, that takes at least a day to do.
15 So, if you have several side streets that you
16 need to tie into, depends on the material of
17 the services. If they're all plastic services,
18 and they're just transfers, that takes less
19 time to do. If they're all bare steel, you
20 have to re-lay them up to the house, that's
21 longer.

22 So, there's a lot of variabilities in
23 these jobs. And, like Rich said, you know, you
24 never know when you can run into ledge. That

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 puts a damper on how much feet we can get in a
2 day. If we can get off pavement, that's even
3 greater. You know, we're not cutting asphalt
4 and we're not replacing asphalt. So, every job
5 varies.

6 BY CMSR. BAILEY:

7 Q. Do you know --

8 A. (Crabtree) On average, I don't know on the top
9 of my head, you know, on average, how much --
10 how long it takes to replace a mile. But --

11 Q. Do you know what percentage of the projects
12 include cast iron service mains -- service
13 connections?

14 A. (Crabtree) Bare steel services?

15 Q. Yes.

16 A. (Crabtree) I can look in our plan. Roughly, I
17 would say about half. Half the services we
18 deal with will be bare steel.

19 Q. Okay.

20 A. (Crabtree) Again, that depends on each of the
21 jobs.

22 Q. And, when you're replacing a mile of CIBS, can
23 you be replacing another mile somewhere else?

24 A. (Crabtree) Yes.

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Q. So, you have more crews working?

2 A. (MacDonald) Yes. As, for today, example -- for
3 example, we have seven crews spread across our
4 territory. All of them are, you know, laying
5 replacement gas main on CIBS projects. And,
6 then, we have the remainder of those crews,
7 they're doing service line work.

8 Q. So, I come from the telephone industry, and I
9 want to understand what you mean by "crews".
10 In telephone speak, a "crew" was one person.

11 A. (MacDonald) Okay.

12 Q. When you say you have "seven crews", does that
13 mean "seven workgroups" or "seven people"?

14 A. (MacDonald) No, it's seven workgroups. A
15 typical main crew would consist of, you know,
16 dump trucks, utility trucks or crew trucks,
17 backhoes, you know, skid-steers --

18 *[Court reporter interruption.]*

19 **CONTINUED BY THE WITNESS:**

20 A. (MacDonald) Skid-steers, a Bobcat-type, you
21 know, excavator. And the personnel on-site can
22 vary from -- and it's usually just -- it's a
23 minimum of, you know, five people, to, you
24 know, maybe six, seven or eight people on a

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 particular crew.

2 BY CMSR. BAILEY:

3 Q. Okay. Do you -- is there any provision in the
4 Settlement Agreement that imposes a consequence
5 if you don't meet the targets for this
6 Replacement Program?

7 A. (Crabtree) There isn't a target of what we need
8 to replace per year or by when in the
9 Settlement Agreement.

10 Q. Right.

11 A. (Crabtree) So, there would be no penalty,
12 because there's no target.

13 Q. So, what happens in 2024, if it isn't done? Do
14 we have to wait that long?

15 A. (Crabtree) That's our goal, you know? That's
16 what we want to do. This is, you know, it's
17 widely known that cast iron and bare steel is
18 leak-prone gas pipe. There's accelerated plans
19 in, you know, most distribution companies in
20 the country that still have cast iron and bare
21 steel. So, we had a program in place, the
22 Settlement Agreement now requires that we have
23 this program. There's no deadline or how much
24 we should replace per year or get it done by

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 this year. It's -- the rate we were at, where
2 it was about a 20-year plan, you know, and
3 through discussions with the Staff, that seemed
4 like it was not aggressive enough. So,
5 discussions came that we want to reduce this by
6 ten years and make it a ten-year plan, and
7 those discussions were after the Settlement
8 Agreement in 2014. So, that's where the 2024
9 came in. And that's a goal. That's what we
10 want to accomplish. And we're going to do our
11 best to do that. So, we already had some
12 hiccups, and we're working through those so we
13 don't have any more.

14 Q. So, it's a goal or -- my understanding is that
15 it's a commitment, almost a requirement now.
16 Because, I mean, this has to do with safe and
17 reliable service. We've talked about
18 unaccounted for gas in the rate proceedings.

19 A. (Simek) Yes.

20 Q. This should reduce that.

21 A. (Simek) Absolutely.

22 Q. So, maybe we should give you a little incentive
23 and less unaccounted for gas recovery to get
24 this underway. I mean, it's frustrating that

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 you have a commitment that's sort of a
2 requirement, I think it may be a requirement,
3 and you're saying "Well, it's just a goal", and
4 "there's no consequence if we don't meet the
5 goal".

6 A. (Crabtree) No, I'm not taking this lightly at
7 all. This is an important program to us. You
8 know, the whole reason why it's in existence is
9 it's public safety, is number one. So, we're
10 not taking it lightly. We're doing everything
11 in our power to accomplish this. So, don't
12 take that the wrong way.

13 A. (MacDonald) You know, Ian, myself, you know,
14 the Gas Operations team and the Engineering
15 team is very committed to getting this program,
16 you know, and making it a success. We're not
17 taking it lightly or just as another program.
18 We understand that in -- you know, the safety
19 aspect of this program.

20 Q. Do you think that you've been successful so
21 far, in the first two years?

22 A. (MacDonald) I think we've made some
23 improvements, and we're continuing to improve
24 every year.

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Q. You mentioned the "November 15th hard stop" on
2 the paving?

3 A. (MacDonald) Yes.

4 Q. And, maybe I didn't understand, but is that a
5 hard stop in all three cities?

6 A. (MacDonald) All three cities, most of the
7 cities we, you know, that we serve, and also
8 the State of New Hampshire, actually, the State
9 of New Hampshire I believe is November 1st.
10 And, when I -- just to clarify, you know, a
11 "hard stop", what that means is a "final,
12 permanent, accepted restoration of a street".
13 That any -- when we permanently restore a
14 street, you know, the cities or towns accept
15 that. What the November 15th hard stop, so to
16 speak, is, they -- we go into a temporary
17 winter restoration process, where we put in
18 temporary -- a temporary asphalt surface that
19 will, you know, sustain the winter. And, then,
20 as weather and temperatures, conditions coming
21 into the spring allow for, that restoration
22 gets done over under the permanent requirements
23 for that particular municipality.

24 Q. So, you have to be finished with the work by

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 November 15th, and they have to accept it by
2 November 15th, is that what you're saying?

3 A. (MacDonald) Yes. For finished restoration,
4 they would not allow us to do any permanent
5 restoration after November 15th, unless, of
6 course, and we have, but, you know, if we're in
7 seasonably warmer temperatures in November,
8 they have allowed us to permanently restore,
9 you know, trenching. But that's day-to-day and
10 that's weather-dependent. You can't depend on
11 it.

12 Q. Okay. What was the purpose of limiting the
13 carryover costs to 5 percent in the Settlement
14 Agreement?

15 A. (MacDonald) Well, I believe that was a
16 negotiation with Staff and the Company at the
17 time. And the 5 percent limit was, you know,
18 brought up by Staff and/or requested by Staff,
19 and, you know, we made a commitment to that.

20 CMSR. BAILEY: I think that's all I
21 have. Thank you.

22 WITNESS MacDONALD: Thank you.

23 BY CHAIRMAN HONIGBERG:

24 Q. Mr. MacDonald, I'm going to pick up right where

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 you left off. You agreed to the 5 percent
2 limit. But your position, I sense today, is
3 that that's a mistake, both for the program and
4 for the ratepayers generally. Am I right?

5 A. (MacDonald) Yes. We did hit, I believe in
6 2014, you know, we did manage to get zero
7 carryover costs.

8 Q. Right. I understand that. But what I think
9 you've said today is that that limit is
10 preventing you or does prevent you from
11 completing certain projects, and, therefore,
12 you're able to do less work, and get recovery
13 for it, be sure you're going to get recovery
14 for it.

15 A. (MacDonald) Yes.

16 Q. Is that what you're saying?

17 A. (MacDonald) I think we try to get the -- you
18 know, our goal is to get the work done, get the
19 services, you know, in service, used and
20 useful, and get our customers transferred over
21 to those services. Yes, it's a limitation.
22 Yes, it's a stipulation and a restriction.
23 But, at this point, you know, we continue to do
24 as much pipe replacement as we can.

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 Q. I get that. And I know, from the conversation
2 you had with Mr. Speidel, that trying to
3 identify more finish paving crews would be
4 expensive, and, in your view, a bad use of
5 resources. But I'm trying to get a sense of,
6 if this limit weren't 5 percent, if it were a
7 higher number, would you be able to get more
8 done and, if so, how much?

9 A. (MacDonald) I don't think it's a restriction
10 of -- you know, I don't concern myself with it,
11 as far as being able to get more done. You
12 know, we -- you know, the issue is, you know,
13 the ability to carry those, you know, those
14 costs across a year, you know, and to get them
15 into, you know, the rate adjustment.

16 So, you know, changing that to 10 percent,
17 20, 30, whatever, you know, as far as the work
18 plans and, you know, managing the program,
19 going, you know, or as we go through the
20 program, you know, if we're managing to 2024,
21 and we need to get 13 miles of pipe done, I
22 don't see that influencing that.

23 Was that your question?

24 Q. I think it was. And I think that would have

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 been -- that would have been the case to make,
2 I think, for changing this. If this were
3 serving as a deterrent, it seems to me, and
4 I'm, you know, not -- you're much more familiar
5 with this than I am, that, if it's a deterrent,
6 then that would be the case you should make.
7 And I had that sense from your testimony, and
8 now I hear you walking away from that.

9 Mr. Simek, it looks like you want to say
10 something.

11 A. (Simek) Well, we wouldn't put safety at
12 jeopardy over this.

13 Q. I know that's what we're talking about. You've
14 got a plan to get this done over a certain
15 number of years. And earlier one or more of
16 you left me with the impression that, if we
17 didn't have to stop on November 15th, we'd be
18 able to have crews working later in year,
19 because we'd be able to not worry about having
20 to not recover the -- or, get the finish work
21 done and put into rates, because we'd have to
22 do it the next year, in part, at the request of
23 the cities and towns.

24 A. (Simek) Yes.

[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 A. (MacDonald) I just think it's more of, you
2 know, a recognition of the process, and it's
3 more, you know, of an education today, you
4 know, to go over the variables that we're
5 dealing with, you know, as far as dealing with
6 all of the cities and towns that we perform
7 this work in.

8 And, you know, to put a 5 percent cap on
9 something, which is rigid, there is no
10 variability in it, as far as what we're able to
11 carry over, you know, the Company still has,
12 from a safety aspect, and I think everybody in
13 this room, we're all trying to do the right
14 thing here, in the name of public safety and
15 operating safely.

16 So, yes, we would still and have continued
17 to install pipe beyond November 15th. The
18 issue is, you know, this restoration
19 restrictions that are pretty consistent between
20 Nashua, Manchester, and Concord. They vary
21 slightly. The Company is doing everything in
22 its power to try to get this work done or the
23 restoration work done, or get as much of it
24 done as possible, and also to working with the

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[WITNESS PANEL: Simek~Crabtree~MacDonald]

1 cities and town, you know, to be more efficient
2 about it and try to leave a better street, you
3 know, in their communities than when we were
4 there.

5 Q. I think we're all sympathetic to that, and I
6 think we understand the motivations. And I
7 don't think it makes sense to belabor it. But,
8 if the restrictions on the ability to do full
9 restorations, or get those full restorations
10 applied in what your view is the correct year
11 is a deterrent on the program, then I think
12 that's an important discussion to have with
13 Staff. Probably not in the context of looking
14 back, but in terms of looking forward, and
15 looking to perhaps modify the agreement you've
16 entered into.

17 And I'm not sure that this is the time or
18 the place, but you may have, you know, not to,
19 you know, this is truly not a pun, but to lay
20 the groundwork for that.

21 A. (MacDonald) Okay.

22 Q. Yes. I'm not sure I understood the answer to
23 Mr. Sheehan's question regarding "how much work
24 for the current year has been initiated, has

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[Witness: Knepper]

1 started?" You've got, I think, nine miles
2 planned. How many projects is that? I know
3 it's in here. It's something like 15 or 17 or
4 something like that.

5 A. (Crabtree) I think it's a little more than
6 that.

7 Q. All right.

8 A. (Crabtree) I've got it right here.

9 (Short pause.)

10 **BY THE WITNESS:**

11 A. (Crabtree) Twenty-five.

12 BY CHAIRMAN HONIGBERG:

13 Q. How many of those have started?

14 A. (MacDonald) We have seven projects started.

15 Q. And you still expect to be able to get all 25
16 done this year?

17 A. (MacDonald) We do.

18 CHAIRMAN HONIGBERG: I think the rest
19 of my questions were answered. So, thank you.

20 Mr. Sheehan, do you have any further
21 questions for your witnesses?

22 MR. SHEEHAN: No. I think any
23 questions I would have would be beating that
24 dead horse. So, we will --

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[Witness: Knepper]

1 CHAIRMAN HONIGBERG: All right. Mr.
2 Mullen may disagree with you.

3 MR. SHEEHAN: We're all set.

4 CHAIRMAN HONIGBERG: All right.
5 Thank you, gentlemen. I think it probably
6 makes sense to take a short break before the
7 Staff witness testifies. So, we will come back
8 at about ten minutes to eleven.

9 *(Recess taken at 10:37 a.m.*
10 *and the hearing resumed at*
11 *10:57 a.m.)*

12 CHAIRMAN HONIGBERG: All right. Are
13 we ready to hear from Mr. Knepper?

14 *(Atty. Speidel nodding in the*
15 *affirmative.)*

16 CHAIRMAN HONIGBERG: Mr. Patnaude.
17 *(Whereupon **Randall S. Knepper***
18 *was duly sworn by the Court*
19 *Reporter.)*

20 **RANDALL S. KNEPPER, SWORN**

21 **DIRECT EXAMINATION**

22 BY MR. SPEIDEL:

23 Q. Mr. Knepper, could you please state your full
24 name and business occupation.

[Witness: Knepper]

1 A. Randall Knepper. I'm the Director of Safety
2 for the Public Utilities Commission.

3 Q. Are you familiar with this document here that
4 has a cover letter signed by myself, dated
5 "June 6, 2016"?

6 A. Yes.

7 Q. This would be your testimony, correct, prefiled
8 testimony?

9 A. Correct.

10 Q. Did you prepare this testimony as part of your
11 responsibilities for reviewing the CIBS filing?

12 A. Yes.

13 Q. And you are the primary analyst responsible for
14 examining the CIBS filing, correct?

15 A. Yes. I also used our Assistant Director to
16 help us, but he's not here this week.

17 MR. SPEIDEL: Okay. Thank you. I
18 would like to have this material marked as
19 "Exhibit 2", "Hearing Exhibit 2".

20 (The document, as described, was
21 herewith marked as **Exhibit 2** for
22 identification.)

23 MR. SPEIDEL: But there is one
24 substitution page that I would like to add.

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[Witness: Knepper]

1 It's the very last page, Bates Page 161. This
2 will be incorporated into Mr. Knepper's
3 testimony now. But I wanted to alert the Clerk
4 and everyone that I'll be passing that out very
5 shortly.

6 BY MR. SPEIDEL:

7 Q. So, Mr. Knepper, do you have any corrections
8 you'd like to make to Hearing Exhibit 2, your
9 testimony?

10 A. Yes. I would consider most of them minor, but
11 let's go through them. There's five revisions.
12 The first one is on Bates Page 006, Line 21.
13 And I would remove the word "addition" and in
14 its place insert "additional", and remove the
15 word "years" and insert the word "reports".

16 The second one is a minor one on Bates
17 Page 15. Just the footnote is "AK" should be
18 capitalized. If I don't say that, our Program
19 Administrator will get it on the record, she
20 will criticize me.

21 The next one is Bates Page 017, Line 6.
22 The word "acheiving" is misspelled, the "i"
23 before the "e" rule should be in place that I
24 messed up on.

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[Witness: Knepper]

1 And, then, the last one is Bates Page 024,
2 Line 8. And insert the words "more than" after
3 the word "replace".

4 And, then, the final revision is what you
5 alluded to earlier, Bates Page 161, which is
6 RSK Attachment 8. We inadvertently put in an
7 annotized [sic] version. Often I will put my
8 notes in. And I just want to make sure it's
9 clear, that's not the notes of Liberty, those
10 are my notes. And, if you want, we have a
11 clean version of that, as well as that response
12 is -- references the attachment that goes with
13 it. And that's what we were referring to
14 earlier.

15 Q. So, I'll distribute the substitution page,
16 Bates Page 161, to the Commissioners, the
17 Clerk, and the Parties, okay?

18 A. Thank you.

19 MR. SPEIDEL: Thank you.

20 CHAIRMAN HONIGBERG: So, are we
21 replacing Bates page 161 in Exhibit 2 or are we
22 making this new page "Exhibit 3"?

23 MR. SPEIDEL: No. This is a
24 replacement within Exhibit 2.

[Witness: Knepper]

1 CHAIRMAN HONIGBERG: Mr. Sheehan?

2 MR. SHEEHAN: That's fine.

3 CHAIRMAN HONIGBERG: Okay.

4 *[Atty. Speidel distributing*
5 *documents.]*

6 BY MR. SPEIDEL:

7 Q. Mr. Knepper, could you please offer a brief
8 summary of your testimony, given that it's
9 relatively late-filed in this docket?

10 A. Yes. To summarize my testimony, Staff has
11 reviewed Liberty's Petition, their accompanying
12 testimony. We issued two rounds of discovery.
13 We conducted a technical session in regards to
14 reconciling the prudent costs associated with
15 the Fiscal Year 2016 CIBS or Cast Iron/Bare
16 Steel Program. And this is the eighth year of
17 that program since we started it with their
18 predecessors.

19 So, my recommendations within my testimony
20 recommend the following conditions be placed
21 going forward. One thing is, for Fiscal 2016,
22 we do have a limited audit underway, although
23 the results are not known at this time. If
24 anything comes of that audit or any adjustments

[Witness: Knepper]

1 are recommended and agreed to by -- recommended
2 by Staff and agreed to by Liberty, we
3 traditionally can make those adjustments in the
4 following year's program. So, that would be
5 Fiscal Year 2017.

6 Also, Liberty has, in other dockets
7 before, or other discussions with the Gas and
8 Water Division, has indicated that they expect
9 to file a full rate case in 2017. So, those
10 costs for the CIBS Program would be included in
11 any audit in that proceeding. So, we -- going
12 forward, we'll get the Fiscal Year 2017 costs
13 to be audited. That was a discussion and that
14 was included in the order last year, that we
15 should -- we're getting to a point where the
16 costs are growing that we should probably have
17 a full audit done, including the Audit Staff.

18 In my testimony, I think the following
19 practices should be continued: Submission of
20 the final petition by April 15th of each year.
21 I do believe in the continued requirement of
22 cutting out physical segments of bare steel
23 main replacements, and continuing the
24 microbiological testing of the segments as

[Witness: Knepper]

1 required in the Settlement conditions that are
2 listed in I believe it's RSK Attachment 2. And
3 I also believe in the continuing requirement to
4 file by the end of the year, December 31st,
5 2016, the results of attaining customer
6 conversions or attracting new customers that
7 are involved in the CIBS Program. These are
8 things that have been done in the past, and I
9 still believe there's good value in doing
10 those.

11 Adjustment of the revenue requirement, I
12 do -- this is -- we have a little bit differing
13 difference between what they submitted. I
14 believe that the excess costs above 5 percent
15 should not be included. These are the Fiscal
16 Year 2015 carryover costs that amount to
17 514,440. The Safety Division doesn't approve
18 of the inclusion of these excess carrying
19 costs. And, so, the result of this is the
20 revenue requirement calculation gets reduced
21 down to \$161,010, as we heard -- 010 dollars
22 (\$161,010) as we heard earlier this morning.
23 And that is -- should be what we wanted in RSK
24 Attachment 8 that we just handed out. It is

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[Witness: Knepper]

1 the spreadsheet that is referenced in that, the
2 revised version of DBS-1.

3 MR. SPEIDEL: Haven't quite handed it
4 out yet. But I would like to introduce it, Mr.
5 Knepper, this filing as "Hearing Exhibit 3".
6 So, I will now distribute that amongst the
7 attendees here.

8 *[Atty. Speidel distributing*
9 *documents.]*

10 (The document, as described, was
11 herewith marked as **Exhibit 3** for
12 identification.)

13 BY MR. SPEIDEL:

14 Q. You may continue, Mr. Knepper.

15 A. Yes. I'm not so sure if this is the full DBS-1
16 or not. This looks like a portion of it.

17 Q. Are you sure? This was the stack that we had
18 here?

19 A. I know. I'm just saying --

20 Q. I think it presents the relevant schedule.

21 A. I think it presents the relative schedule of
22 the 161,000.

23 Q. Yes. Page 1 of 4.

24 A. Page 1 of 4.

[Witness: Knepper]

1 Q. Yes. So, it's an excerpt prepared for exhibit
2 purposes?

3 A. Correct.

4 Q. All right. We'll get by on that one. So, --

5 A. I have a couple other summaries.

6 Q. Yes, please do.

7 A. I have two other points. So, I do want to say,
8 you know, Staff welcomes the spirit of
9 Liberty's goal in publicly stating that the
10 cast iron and bare steel can be eliminated by
11 2024. But, to me, Staff acknowledges the
12 challenges that are associated with that
13 commitment in the oncoming years, because
14 they're going to be managing a large amount of
15 replacement work.

16 So, I remain cautiously optimistic. I
17 think it's a large commitment by the Company.
18 I am glad that they are taking it on. But
19 we'll kind of take a wait-and-see approach and
20 see if they can get that accomplished. It
21 would be terrific if they could.

22 And, then, lastly, I just want to make
23 sure that -- to get on the record is that
24 Liberty is expecting to file a full rate

[Witness: Knepper]

1 recovery in 2017, plans could change, but it
2 should recover any of the 2017 CIBS costs that
3 are not recoverable in this docket, as well as
4 those in previous dockets that we have
5 excluded.

6 And we're looking for that to, for next
7 year, that they would -- Liberty should make
8 its CIBS filing in 2017, just like we have
9 today for 2016, but they wouldn't seek a rate
10 adjustment, if they -- if they go forward and
11 file a rate case, it would be a step adjustment
12 as part of that proceeding.

13 Q. Very good, Mr. Knepper. As far as DBS-1 is
14 concerned, Hearing Exhibit 3, my copy has Pages
15 1 through 4 of 4. So, I don't know if there
16 would be any other pages involved with that?

17 A. I think there's a full work, if you -- well,
18 let me take a quick look at it. I think, for
19 our purposes, the key number is 161,000 is what
20 the -- and 10 dollars (\$161,010) is the revenue
21 requirement that shows up in that one, versus
22 what their initial Petition was that we heard
23 earlier, that was 200 and -- well, it was north
24 of \$200,000.

[Witness: Knepper]

1 Q. So, this is within Page 1 of 4 of their DBS-1?

2 A. Yes.

3 Q. Okay. Very good. Mr. Knepper, could you
4 please describe your role in granting approval
5 or disapproval for carryover costs subject to
6 the terms of the Settlement Agreement?

7 A. Yes. I mean, I think the Settlement is pretty
8 clear. It's clearly in the discretion of the
9 Safety Division of approving those things, or
10 not approving those things. And we have chosen
11 not to. It doesn't mean that we're not
12 sympathetic to some of the arguments, but we
13 are not convinced at this time.

14 Q. Is the disapproval ability held within the
15 discretion of the Safety Division? Is that
16 something that's designed to provide an
17 incentive for the Company?

18 A. Yes. The whole -- the whole thing about the
19 carryover costs and why it was put in was, you
20 know, this has been an ongoing program, in our
21 eighth year. But, when that provision went in,
22 we were seeing, you know, one-third, one-half,
23 two-thirds, almost up to three-quarters of the
24 projects not even getting completed. And, so,

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[Witness: Knepper]

1 it really gives a "distorted" view of what the
2 costs are to do a job if you can't capture
3 those costs in a year, because -- not because
4 of you can't eventually, all of this stuff gets
5 recovered eventually. It's just, you're trying
6 to use the previous year's costs, true costs of
7 a project, so that you can kind of make
8 decisions going forward in the next year.

9 And, so, that provision was there to, just
10 like many other provisions, that not everything
11 is an all-in, recoverable, with the CIBS. It's
12 to give an inducement to be able to get things
13 done quicker. And, if they don't, it's like
14 many other costs, costs of bringing -- they do
15 lots of other things. They bring meters from
16 inside to out when they're doing the CIBS
17 Program, they're tying over plastic services
18 that are existing over things. Those costs are
19 kind of stripped out. It doesn't mean that
20 they won't get recovered later, they just don't
21 get recovered as quickly as in the CIBS
22 dockets.

23 Q. So, you have an expectation that that
24 incentive, for example, the disallowance within

[Witness: Knepper]

1 this year, will tend to spur the Company to
2 figure out a way to try to reduce carryover
3 costs in the future?

4 A. We're hoping. We're hoping to. And we're
5 trying to see if that is going to be able to
6 get accomplished. You know, at the end of the
7 day, it's a small -- it's not a large -- not a
8 major portion of the costs of doing the Cast
9 Iron/Bare Steel. We are still giving recovery
10 of the cost of putting in the main and the cost
11 of tying over the bare steel services, which is
12 the majority of it. It's just that final
13 restoration costs aren't completed at that
14 point in time. So, if they would, they would
15 be eligible to get quicker recovery.

16 Q. Okay. There was one specific technical issue
17 that was raised by Mr. Crabtree. And he
18 mentioned that, in his view, "when you're
19 replacing obsolescent cast iron or bare steel
20 pipe with a modern coated steel or plastic
21 service line, there's no real need for
22 bacteriological testing results." Do you
23 recall that testimony today?

24 A. Yes.

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[Witness: Knepper]

1 Q. In your professional opinion, are there
2 instances where bacteriological testing is
3 still of value in making sure that modern
4 services that are installed will remain in safe
5 condition?

6 A. Yes. So, when we have a bare steel service or
7 a bare steel main, we're requiring it on the
8 bare steel mains. And, if you look at our
9 testimony, and their attachments, as well as
10 mine, these have holes in them. That pipe is
11 in failure mode. It has failed. One of the
12 requirements is to find out why. And you can
13 just say "well, it corroded". But you should
14 do a better investigation of that, the code
15 requires that. And you should try to find out
16 if that failure mode can be in anywhere, other
17 places of your system. And, so, we have, in
18 the -- I think the history of these eight
19 years, there's about 42 different tests that
20 they have done on these samples. And we have
21 found not just one, we found multiple places
22 where that has occurred. And, so, I think that
23 threat, and the identity of that threat, and to
24 identify it and putting things in place, would

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[Witness: Knepper]

1 be also applicable to even the coated steel
2 services that they're tying back over, so that
3 they're aware of the conditions around them, if
4 they get nicked or damaged, and they can have
5 that awareness.

6 So, I believe gaining the knowledge of
7 what the conditions of the surrounding soils
8 and things that led to that corrosion is
9 important. And I think it should continue.

10 MR. SPEIDEL: Staff has no further
11 direct questions of Mr. Knepper. Thank you.

12 CHAIRMAN HONIGBERG: Mr. Sheehan.

13 MR. SHEEHAN: Thank you.

14 **CROSS-EXAMINATION**

15 BY MR. SHEEHAN:

16 Q. Mr. Knepper, first, the requirement to do the
17 CIBS Program does arise out of the Settlement
18 Agreement in DG 11-040, is that correct?

19 A. That's correct.

20 Q. And that was the acquisition docket, in which
21 Liberty acquired EnergyNorth?

22 A. That's correct.

23 Q. That Settlement Agreement does not put a
24 timeline on when all the CIBS should be

[Witness: Knepper]

1 replaced by?

2 A. Yes. I think we talked about that a little
3 earlier, in a response to Commissioner Bailey.
4 There's not a mandate that says "Get it out by
5 X years." And we wanted to kind of build in
6 the flexibility of not putting that mandate in.
7 So, the whole thing about this as being an
8 incentive is to kind of get the Company to do
9 things that they may not normally do or just
10 try to wait for municipal projects to kind of
11 accelerate that rate. So, it was purposefully
12 not put in.

13 But, after a period of time, between
14 discussions, the collaborative discussions
15 between Staff and Liberty, we've kind of have
16 an informal that we're shooting for 2024 to get
17 the majority of this out.

18 Q. And the "incentive" you just referred to wasn't
19 the carryover incentive, it was the early
20 recovery, these yearly proceedings?

21 A. Yes. I would call it getting rid of some of
22 the lead/lag that associates with some of the
23 costs, not all costs, but some costs, of taking
24 a more proactive approach to replacing this

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[Witness: Knepper]

1 cast iron and bare steel, which is considered
2 leak-prone.

3 Q. And we've spent maybe too much time today
4 talking about the lesser incentive, or whatever
5 you want to call it, of the 5 percent cap. And
6 I've just got a couple of questions, --

7 A. Great.

8 Q. -- and then we will close for today. You heard
9 the testimony from Company's witnesses about a
10 "November 15 hard cap", I call it, but you
11 understand what that date is, after which, for
12 the most part, the Company cannot install final
13 paving. Are you aware of that?

14 A. I'm aware of -- I don't have the -- I don't
15 have it memorialized anywhere, but I'm kind of
16 aware that that's the general expectation by
17 the -- at least the three municipalities where
18 they do the majority of their work. I don't
19 know if it's for every municipality. But the
20 cast iron and bare steel is in those three
21 towns pretty much, Concord, Manchester, and
22 Nashua.

23 Q. And you're also aware that these towns also
24 require the patch to be settled, to allow it to

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[Witness: Knepper]

1 settle for a period of time, before they
2 install final paving?

3 A. Yes. And I'm familiar with there's settling
4 requirements. I'm not sure if they're
5 identical from town to town.

6 Q. Right.

7 MR. SHEEHAN: Chairman, we received
8 Mr. Knepper's testimony Monday. And there was
9 some discussion in that of these hard stop
10 dates and settling dates. And we've collected
11 the requirements from Manchester, Concord,
12 Nashua, and DOT. And I didn't have a chance,
13 because of the short timeline, and I frankly
14 haven't been in the office since last week to
15 make enough copies. So, I'm going to ask to, I
16 think, make a record request for us to file
17 just a copy of those for the Commission's
18 benefit. And it's just -- it says, you know,
19 the City of Nashua, "you can't install from
20 this date to this date", it's those kinds of
21 requirements, probably by Monday.

22 CHAIRMAN HONIGBERG: Mr. Speidel?

23 MR. SPEIDEL: No objection.

24 CHAIRMAN HONIGBERG: Fine. Then,

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[Witness: Knepper]

1 we'll reserve the next exhibit, which will be
2 "4", --

3 MR. SHEEHAN: Okay.

4 CHAIRMAN HONIGBERG: -- for your
5 filing of the municipal requirements
6 collection.

7 *(Exhibit 4 reserved)*

8 MR. SHEEHAN: Thank you.

9 BY MR. SHEEHAN:

10 Q. Mr. Knepper, will you agree with me that the
11 only way to ensure that we don't have any
12 carryover is to stop our construction
13 activities at some point early enough in the
14 fall so that we can meet those time deadlines,
15 those paving time deadlines?

16 A. Yes. I'll agree with you that the -- we
17 shouldn't stop construction, it just means that
18 those, if you want to be able to get
19 100 percent of the recoverable dollars, those
20 constraints are going to have an impact on
21 that.

22 Q. And, so, focusing on the CIBS, of course, if
23 the goal is to recover 100 percent of those
24 dollars, we have to stop early in the season,

[Witness: Knepper]

1 you would agree that we would lose two, two and
2 a half, three months of the construction season
3 in which we could be doing CIBS work?

4 A. I guess the premise of the question is, the
5 goal is to recover 100 percent of those
6 dollars. I think the goal is to accelerate
7 cast iron and bare steel replacement. And, so,
8 that should be the overarching principle. And
9 the recovery of it is how it gets recovered,
10 whether that be later on in a rate case or
11 whether it gets recovered in the CIBS
12 proceeding. The overarching thing is to get as
13 much work done as possible.

14 Q. And you heard Mr. MacDonald's response to the
15 Chairman's questions that, honestly, they
16 don't -- the Company does not treat this
17 5 percent cap as a disincentive. They
18 basically ignore it and they do as much work as
19 they can.

20 A. Right.

21 Q. So, what role, in your opinion, does this cap
22 play? What incentive does it play?

23 A. Well, all we're trying to do is to see if we
24 can get as much of the costs recovered during

[Witness: Knepper]

1 the year in which it's occurred of that
2 project. And, if it can't, it's just going to
3 delay some of those costs.

4 Q. And, --

5 A. So, it will get recovered. It's just a matter
6 of, does it get recovered as immediately as
7 that? And, it's, to me, it's no different than
8 any of the other work that they are doing
9 associated with there's work that they are
10 doing when they do cast iron/bare steel
11 replacement. Some of it's recoverable in CIBS
12 and some of it's not. And, if it ends up being
13 in the bucket that's not, it just goes into the
14 "eventually recoverable" bucket, which will be
15 in some proceeding that Liberty will initiate
16 when -- just like any other cost that's
17 recoverable.

18 Q. And I won't disagree with you that, in the
19 grand scheme of things, these aren't huge
20 dollars. They're not -- we will recover them
21 eventually. But the question is that, do you
22 see that there, at least from the Company's
23 perspective, there is no incentive caused by
24 the 5 percent cap? Do you appreciate that?

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[Witness: Knepper]

1 A. It's not working out, I think I said in my
2 testimony, as what we thought. It doesn't seem
3 to be changing that. For both parties.

4 Q. And, Mr. Knepper, you will agree that this year
5 the Company replaced more bare steel pipe than
6 any other year?

7 A. Are you talking within the CIBS --

8 Q. Yes.

9 A. -- or including the municipal?

10 Q. Both.

11 A. Yes. I think I list that out on Bates Page
12 017, in Table 2 of my testimony. And it looks
13 like slightly more this year than last year.

14 Q. And the same with services?

15 A. And the services, I think I list out, just want
16 to check, yes. They did 177 bare steel
17 services this year, which is more than 159 from
18 last year, yes.

19 Q. And your report also reflects that the average
20 cost per mile over the last two years is one
21 half of what it was two, three, four years ago?

22 A. Yes. I think I do a graph that kind of
23 reflects that. And I'm trying to just kind of
24 capture history. Is it going down? Is it

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[Witness: Knepper]

1 going up? And the magic of those numbers is,
2 there's a lot of estimates, there's a lot of
3 actuals, and trying to compare
4 apples-to-apples. But we made an attempt to do
5 that. So, I do think they're driving the costs
6 down, which is a good thing. A lot of it is
7 probably because there's more, some economy of
8 scale going on here. When you're doing more
9 miles, you get to drive some of those overhead
10 costs and things like that.

11 But I also think -- I think Liberty is
12 trying to, or at least we agree that they're
13 trying some of these pilot programs, and we
14 have recommended working with the
15 municipalities more, and having some of these
16 discussions. And, so, we think some of that is
17 starting to show up in some of these costs.

18 Q. And you will also agree that all of the costs
19 that are at issue today, both the ones that
20 were done in the year and the carryover costs,
21 for all those costs, all the pipe was in the
22 ground in the appropriate calendar year,
23 correct?

24 A. Yes.

[Witness: Knepper]

1 Q. And it was all connected, used and useful,
2 in, --

3 A. Right.

4 Q. -- in this case, calendar year 2015?

5 A. Right. Those are all included in here. The
6 ones that -- the only costs that are excluded
7 were the -- let me make sure I get the question
8 right. Are you asking about which costs are
9 being excluded?

10 Q. No. I didn't ask it very well. We are talking
11 about a certain amount of cast iron pipe that
12 was replaced during 2015?

13 A. Correct.

14 Q. And all of that pipe was replaced in 2015, and
15 it is used and useful as of the end of 2015?

16 A. Yes. As part of the CIBS, yes. And, in
17 addition, they have done municipal work as
18 well.

19 MR. SHEEHAN: That's all I have.
20 Thank you.

21 CHAIRMAN HONIGBERG: Commissioner
22 Scott.

23 CMSR. SCOTT: Thank you. I guess
24 it's still morning. Good morning, Mr. Knepper.

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[Witness: Knepper]

1 WITNESS KNEPPER: Good morning.

2 BY CMSR. SCOTT:

3 Q. Obviously, this is a safety-related program.

4 Is that a correct statement, in your eyes?

5 A. Yes.

6 Q. And, best case, it sounds like we'll see -- we
7 won't see a full replacement of the bare steel
8 until 2024?

9 A. That's what Liberty is committed to. But
10 that's a really aggressive goal, if you've
11 looked at what they have done in the past, as
12 well as their predecessors. That's a lot of --
13 there's a lot of main to replace, and there's a
14 lot of bare steel services that go with that.
15 So, that's -- that's what they have said.

16 Q. So, I guess what I'm concerned about, and I
17 don't have any reason to say this is the wrong
18 approach at all, but should there be a
19 different prioritization of the remaining CIBS
20 routes? I guess what I'm getting at is, what I
21 would hate to see is some kind of catastrophic
22 failures safetywise between now and the final
23 replacement. Is that a concern?

24 A. Oh, yeah. That's always a concern. That's the

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[Witness: Knepper]

1 impetus of replacing cast iron and bare steel.
2 So, we're trying to whittle away at a problem
3 that's been in the ground for a long time,
4 whittle it in a way that's acceptable to
5 ratepayers and cost impacts, but avoid some
6 catastrophic incidents or accident that may
7 occur. Yes. So, -- but that's the key, that's
8 the art of this, is to try to prevent that from
9 occurring.

10 Q. So, more to the point, I think I heard
11 Mr. Crabtree suggest that, which makes sense
12 for a lot of reasons, because of the five-year
13 moratorium, once you open -- once you restore a
14 road, if I understand it, towns don't want you
15 opening it up again for five years. What I
16 thought I heard him suggest is that that's
17 really where the focus is, for priorities, is
18 looking at where the towns are digging and
19 moving that way. And it sounds reasonable to
20 me, and it sounds like it's a good cost-saving
21 measure even. Does that jibe with
22 prioritizing?

23 A. Right. So, that's a cost-cutting measure that
24 they should always be doing. You know, looking

[Witness: Knepper]

1 to see if you can coordinate with others and
2 reduce your costs. You don't need an incentive
3 from the Commission to do that or the Safety
4 Division. And I think Mr. Crabtree tries to
5 incorporate that when they're selecting mains.
6 So that we're looking at the leak history,
7 we're looking at some of the restraints by the
8 towns, as to, you know, "we have moratoriums on
9 these streets".

10 And, because he's still got a pretty good,
11 I don't know, universe of segments to pick
12 from, a large inventory, he's able to juggle
13 those things and prioritize. And, then, he
14 comes up with a list and he presents them to us
15 and we tend to review them. So, we don't come
16 up with the list of which ones, the Company
17 does. And I think the process is working
18 pretty well the way it's going.

19 Q. Thank you for that. Moving onto the soil
20 sampling discussion. What I think he suggested
21 was, despite the fact that they'll be removing
22 the bare steel, so the condition of the soil is
23 less important with -- I think you heard the
24 discussion with plastic certainly. What I

[Witness: Knepper]

1 think I just heard you say earlier was the fact
2 that there, in some instances, there will be
3 coated steel remaining, that that information
4 is still important?

5 A. Yes. So, if you had a cast iron main that was
6 there, and it had an original bare steel
7 service installed at the time, that bare steel
8 service may have failed 20 years ago, 30 years
9 ago. And the Company at that time could have
10 installed a coated steel service. So, they
11 replaced it already. And, now, we come along
12 and we replace the cast iron main, that coated
13 steel service isn't getting replaced with
14 plastic, it's just being tied over to a new
15 main. So, I still have steel in the ground.

16 And the thing about coated steel services
17 is it works great when the coating is working
18 and you're getting your -- you're doing your
19 readings that indicate that. But it doesn't
20 work great when you get a little nick or you
21 get some things, some disbonding of things or
22 it gets damaged, and now I have corrosion
23 influences on it.

24 So, I think the sample reports would be

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[Witness: Knepper]

1 helpful in those situations. I also think it's
2 helpful, and the Company disagrees, in
3 selecting other candidates within this
4 inventory. You can kind of see if it's in a
5 congested area, you can see if it's spread out
6 everywhere. You can start to do some analysis.
7 Was it, you know, was it just in the pipes that
8 were in a certain vintage, was it a certain
9 type of crew. There's a bunch of things that
10 you can do. But you need the data. You got to
11 collect it to be able to do those kind of
12 things, to see if they end up being influences
13 or factors.

14 Q. Is it so important to do if there is no coated
15 steel in the area? If it's plastic-to-plastic?

16 A. Yes. They have coated steel spread throughout
17 their system. So, you can have plastic,
18 coated, plastic, coated, you know, number 2,
19 number 4, number 6 Main Street. So, it's --
20 they just didn't do areas where they had coated
21 steel, it's spread throughout their system and
22 spread throughout each street.

23 Q. So, there aren't instances, for instance, a
24 whole branch is going to just be -- is just

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[Witness: Knepper]

1 being replaced with plastic?

2 A. It could be. And we don't know. I don't get
3 that kind of level of detail from Liberty. I
4 don't even know if they analyze it that way.
5 So, it could be a possibility.

6 Q. I was suggesting is there a way to -- well,
7 I'll go to my next question, and it will be the
8 same thing. At that point can you stop doing
9 that?

10 A. Well, I -- within the CIBS Program or are you
11 just talking about in general?

12 Q. Well, the case before us is the CIBS Program.
13 So, I guess I'll stick with that.

14 A. Yes.

15 Q. But, you know, once we get closer to 2024, is
16 there any time --

17 A. I guess when we get to the point where we start
18 seeing -- to what I would call the "tipping
19 point", where we're starting to see that the
20 cast iron and bare steel that they're taking
21 out doesn't have complete holes in them, it
22 only has a certain percentage of wall loss,
23 those kind of things would be factors when you
24 may want to consider backing down on that.

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[Witness: Knepper]

1 Haven't come to that tipping point yet.

2 But, even if you came to that tipping
3 point within the CIBS Program, they probably
4 should be doing it, because there's some code
5 requirements that says that they should be
6 investigating failures. And that would be one
7 of the ways to meet that code requirement.

8 Q. Well, I was going to say "not to belabor the
9 point", but I guess we are, is, but wouldn't
10 the point of that code be to have data be
11 useful for prevention in the future from
12 similar instances?

13 A. Yes. That's exactly what that code -- and the
14 code requirement is that, and I'll read it to
15 you, "The operator shall establish procedures
16 for analyzing failures and accidents, including
17 the selection of samples of the failed facility
18 or equipment for laboratory examination, where
19 appropriate, for determining the causes of the
20 failure and minimizing the possibility of a
21 reoccurrence somewhere else."

22 So, it's exactly for that reason that they
23 put that in there. And I think the Company
24 would do it regardless of whether it was in the

[Witness: Knepper]

1 CIBS Program, or at least I hope they would,
2 because I'm going to ask.

3 Q. So, my take of that is, to tie that into
4 prevention in the future, we're back to where
5 we started, which was, because there's coated
6 steel still prevalent in the system, even after
7 this program is done, that would be the nexus
8 for the prevention?

9 A. Right.

10 Q. Okay.

11 A. I would guess that I would -- I don't want to
12 speak for Liberty. But I would think it's
13 beneficial for them to have that included in
14 the CIBS costs that are recoverable.

15 Q. And, in the same discussion we've just had, and
16 that would be your same -- am I correct, that
17 would be your same rationale for why the
18 evaluations of removed segments also?

19 A. Yes. I mean, I look at the physical, bringing
20 them in and cutting them out, as something
21 that -- is something that's tangible, we can
22 touch, we can see, you can quickly understand,
23 versus someone just describing that, "it was in
24 poor shape" or "it was corroded", to what

[Witness: Knepper]

1 level, and get a little bit more analytical
2 about some of this stuff.

3 And, so, I believe that there is a cost
4 associated with it. And I forgot exactly what
5 they said, I think it was approximately, well,
6 \$4,000, I think it was in the testimony, plus
7 or minus, in doing that. I just -- I think
8 that has value. And, until we get to a point
9 where we start seeing samples where it's --
10 we're not seeing these things that aren't
11 unquestionable. And maybe it ends being
12 they're all that way, we don't know, because
13 the inventory is being whittled down. And I
14 think we should continue with that requirement.
15 It is part of the Settlement Agreement. And,
16 so, I would expect that to continue.

17 Q. Okay. I'll move on then. Regarding the
18 carryover, back to "belaboring" points, I
19 think, do you see any indication that the
20 utility is -- this is inhibiting replacement
21 work from the utility, that's acting as a
22 disincentive to them actually replacing the
23 bare steel?

24 A. My sense is, it's just in the recovery of

[Witness: Knepper]

1 things. I don't think it's impacting whether
2 they make a decision to do a project or not.
3 It's just -- it's just totally a financial
4 recovery exercise. I think they're trying to
5 get the cast iron main out, they're trying to
6 get the associated bare steel service and
7 getting that work done. All we're talking
8 about is the recovery portion of it. So, I
9 don't think it's a driver of anything. I think
10 it's the result or the secondary nature of the
11 program.

12 Q. So, would you agree with the assessment it may
13 not be helping?

14 A. I don't think it either helps or hurt. It just
15 decides what goes into quick recovery versus
16 not.

17 CMSR. SCOTT: Thank you. That's all.

18 CHAIRMAN HONIGBERG: Commissioner
19 Bailey.

20 CMSR. BAILEY: Good morning.

21 WITNESS KNEPPER: Good morning. Yes.

22 BY CMSR. BAILEY:

23 Q. Can you help me understand the safety aspect of
24 these mains with enough corrosion that there

[Witness: Knepper]

1 are holes in them, like in the pictures in your
2 testimony?

3 A. Yes.

4 Q. When does it get to a point where we need to be
5 extremely concerned?

6 A. To me, we're past that point. I mean, when you
7 have holes in your main, your main has failed.
8 The main's in a failed state, right? So, it
9 shouldn't be there. And, so, we're at this
10 point where we have a lot of our systems that
11 have been put in a long time ago. I think the
12 average age of work we've looked at is over 80
13 years old of what's being replaced. There's
14 some as old as 119 years that they have
15 replaced, and they've got some about 50. It's
16 well passed its life. And it's not serving its
17 function of what it's supposed to be doing. It
18 is not transporting gas within the pipe. It's
19 allowing it to leak outside. It affects costs,
20 like cost of gas and things.

21 But any time you have gas that's not doing
22 what it's supposed to do, right, being inside
23 the pipe, all the way up through the service,
24 up to the house, all the way through, when it's

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[Witness: Knepper]

1 inside the pipe, it's a lot safer. When it's
2 outside, now we have factors out there that the
3 Company can't control. It can start to leak
4 and migrate in patterns that they may not be
5 aware of. There's other people that are
6 digging and excavating now that might do some
7 stuff, and gas can travel. And, once it gets
8 into confined spaces, that becomes -- can
9 become problematic. And, then, once it gets
10 into -- if there happens to be sources of
11 ignition, it can be even more problematic.

12 So, you know, we have leaks that are
13 occurring, and a lot of those leaks or many of
14 those leaks, there's a whole separate program
15 for repairing leaks. But if they haven't, if
16 it hasn't leaked, that cast iron or bare steel
17 already, it's probably going to. And it
18 probably could break. It could break because
19 of freeze/thaw cycles. If it's cast iron, it's
20 very brittle. You know, the leaks
21 themselves -- or, the joints themselves have
22 leaked in the past. And, if they have leaked
23 in the past, you start to get to a point where
24 these are kind of cumulative things, these

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[Witness: Knepper]

1 strains on pipes, and eventually it will crack
2 and break. And, so, we're trying to avoid
3 those and try to get ahead of it. At the same
4 time, you know, their inventory and their
5 percentage of cast iron mains is still out
6 there. Where, in the Northeast, it used to be
7 one of the predominant ways of putting things
8 in. And, so, we're trying to get rid of it,
9 but not so much, you know, that we make a
10 requirement that says "Hey, have it all out of
11 the ground tomorrow." That would just probably
12 be too burdensome for them.

13 Q. So, is there a program where they test these
14 older mains and know where the leaks are and
15 repair them, until they can replace the whole
16 main?

17 A. Oh, they have. We've had a leak requirement or
18 a leak repair program, the Company has, that's
19 a separate program that's going on all the
20 time. And that's for any type of main, whether
21 it be cast iron, bare steel, coated steel,
22 plastic, they're constantly checking for leaks.
23 And there's, depending upon how -- the
24 proximity to houses and the concentration

[Witness: Knepper]

1 levels, whether they have to do an immediate
2 repair or repair it within six months or it can
3 be an ongoing leak that they just monitor.

4 Q. So, why then, when they take the samples out of
5 the ground under the CIBS Program, do they find
6 pipes with holes in them?

7 A. Why? That's a good point. I mean, so, what
8 would happen is, that leak may not be being
9 picked up by their leak detection equipment.

10 Q. Does that mean it's not --

11 A. Doesn't mean it's not there, it's just not
12 being picked up, right? So, doesn't mean that
13 every one kind of rises to the surface. We've
14 seen projects, I think -- I don't think it was
15 in this year's bunch of work, but we've seen
16 projects, I believe, Nashua area, I think the
17 Nashua area, where, as soon as you can run a
18 leak detector equipment across the pavement and
19 it's not picking up minimal amounts of leaks.
20 As soon as they peel that pavement back, you
21 can smell the gas. So, it's there. It's just
22 not always being detected. And, so, we want to
23 try to get rid of this pipe that is (a) costly,
24 because it's not going to where its intended

[Witness: Knepper]

1 use is; (b) it tends to be an emission problem;
2 and also (c) could lead to a potential problem,
3 if it finds its way into places that aren't
4 going to burn it properly.

5 So, I can't wave my wand and say "have all
6 these things fixed tomorrow." These are
7 ongoing maintenance issues that they have to
8 try to take care of. And, so, this isn't the
9 only program. This is one of many that the
10 Company undertakes for checking leaks and
11 fixing them. There are other requirements that
12 we have in our rules that they're just doing
13 that as a course of business.

14 Did I under answer your question?

15 Q. Yes.

16 A. Okay. Thank you.

17 Q. I'm moving on now. The goal, requirement,
18 commitment, to get these replaced by 2024, what
19 category would you put that in? Is it a goal?
20 Is it a requirement?

21 A. It's not a mandate from the Commission. We did
22 not give a mandate. Staff can't give a
23 mandate; the Commission can. We did not. We
24 chose to have discussions with them. We get

[Witness: Knepper]

1 constant asks from Commissioners, yourselves,
2 and previous Commissions, as to "Are we going
3 fast enough?" "Is it the right rate?" "Is
4 that the right thing?"

5 I think the Company acknowledges that they
6 want to get it out quicker than what they have
7 in the past, and that's a good thing. But we
8 haven't said "you have to get X amount per
9 year" or "X amount at a certain date".

10 We've done that with another company in
11 this state. We have not chosen to do that with
12 Liberty. And, the reason we did that with
13 another company is because they were nearing
14 the end of a replacement program, and they were
15 in the final stages. And, so, all we kind of
16 wanted to say "Let's get a commitment by X."

17 I view these people not there yet. They
18 still have a substantial amount of footage,
19 over 100 feet -- 100 miles, excuse me, of work,
20 not including the service lines. And that's
21 still quite a substantial thing.

22 When we get to the end, we may. There's a
23 provision in the Settlement Agreement that
24 says, you know, the "Staff can cancel it, they

[Witness: Knepper]

1 can cancel it". And we may just say "At this
2 point in time, let's get it out by X year."

3 But I don't think we're at that point yet.
4 And, so, we're kind of just using it as a goal
5 still.

6 Q. So, if they only do 5 miles a year, --

7 A. They're not going to -- they're certainly not
8 going to hit their commitment of 2024.

9 Q. Right.

10 A. And it's going to get extended.

11 Q. And you're not going to -- and you're not going
12 to tell them to finish it until 2034 or
13 something like that?

14 A. Well, we're going to look. We're going to look
15 at has there been an increased number of leaks
16 that they're detecting. What are we finding?
17 But this isn't the only program. There's
18 municipal work that goes out there that is
19 reducing the cast iron and bare steel as well.
20 There's work where other people encroach upon
21 their facilities that they replace it as well.
22 This is just one mechanism.

23 But this is an internally-driven
24 mechanism, versus these external things that

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[Witness: Knepper]

1 occur, where the municipality decides to do
2 work or not, Liberty is not driving that. This
3 is internally-driven. And that was the purpose
4 of this, is to kind of give them some sort of
5 incentive in terms of recovery of things, not a
6 full recovery, not all-in, but to give a
7 quicker recovery and get rid of some lead/lag,
8 so that they could take advantage of that, and
9 get rid of this leak-prone pipe.

10 Q. In 2014, was there a written settlement
11 agreement, or is the only written agreement in
12 the acquisition docket?

13 A. This program, I guess if you're just talking
14 about in terms of Liberty?

15 Q. Yes.

16 A. Okay. So, Liberty, the only terms are those
17 that are included in the settlement docket.

18 Q. In the settlement of the acquisition?

19 A. Yes. It was Attachment J, I think it's
20 Attachment J, I think it's what I call "RSK
21 Attachment 2". There's --

22 Q. Okay.

23 A. Those are where we tried to quantify what the
24 terms were. So, we tried to put in so

[Witness: Knepper]

1 everybody is clear on what's in, and we tried
2 to put in what's out, as far as recovery. But
3 we didn't try to say -- we did not at that time
4 say "you have to have it done by X year".

5 You have to remember, back in that
6 time, Liberty is just taking over the Company.
7 They didn't know what their programs were going
8 to be. They had computer systems they were
9 going to do, new policies, a whole bunch of
10 things going on. We wanted to make sure that
11 they were aware of that there's a commitment,
12 and that we want to continue this going
13 forward.

14 But, you know, we did not choose to put a
15 mandate by X years. We have done that before
16 with other companies, we chose not to do that
17 with Liberty.

18 CMSR. BAILEY: Okay. Thank you.

19 BY CHAIRMAN HONIGBERG:

20 Q. Mr. Knepper, I want to clean up a couple of
21 things. In response to a question from
22 Commissioner Scott, you read from something.
23 Can you put on the record what it was you were
24 reading from?

[Witness: Knepper]

1 A. The Code of Federal Regulations, 192.6 --

2 Q. You don't have it memorized? Oh, all right.

3 A. -- 617, Investigation of Failures. That's
4 referenced in our rules, that Code requirement.

5 Q. In reference to the 5 percent cap on carryover
6 recoveries, I believe you used the phrase "not
7 working for either side". Did I hear you
8 correctly?

9 A. Yes. I don't think it's -- if you ask me, are
10 you getting -- is the Company able to take full
11 advantage to optimize and get that, I don't
12 know, extra amounts included in that year's
13 cost recovery? It's not working out like that.
14 We've only -- this is the second or third year.
15 But I do think it has been incentive in the
16 fact that the Company recognizes it, they're
17 trying to do it. And, even this year, the
18 amount of projects that got finished or
19 completed, including restoration costs, is less
20 than the previous years. So, it's having some
21 effect. It's just not -- they may not be
22 "optimizing" things to as much as they can.

23 Q. And I appreciate that. And I understood you to
24 say that one of the reasons that it was put in

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[Witness: Knepper]

1 place it that there was some inefficiency in
2 the way it was being run prior to then, is that
3 right?

4 A. Yes. That was our indication, or at least that
5 that was our feeling. And that this would kind
6 of be a correcting -- another point of
7 correction.

8 Q. And that may be a good way to think of it. But
9 another way, at least in my mind I'm thinking
10 about it, is that we have a pendulum situation,
11 that had swung to one side, and there was an
12 attempt to swing it toward the middle, but it
13 swung to the other side instead. We are not --
14 or, the Company is not able to optimize or use
15 its resources most efficiently, in part because
16 of the existence of this cap. Is that -- is
17 that wrong?

18 A. I don't think of it that way, no.

19 Q. Why not? Because I heard -- I thought I just
20 heard you say that they're not able to
21 optimizing their resources?

22 A. I said "they're not optimizing it". I don't
23 think the cap is restricting things. I think
24 there's considerations that you've got to build

[Witness: Knepper]

1 into, as Rich would -- or, I'm sorry, as
2 Mr. MacDonald would say, "his workload
3 requirements". He has other requirements, that
4 he's trying to do new growth, he's trying to do
5 municipalities, he's trying to do a lot of
6 balance. To optimize it, he could balance it
7 so that he optimizes and gotten the Cast
8 Iron/Bare Steel Replacement Program and got all
9 those pavings costs in. But it might be at the
10 detriment of other restraints or amount of
11 workload that he's trying to do. And, so, he's
12 coming up with something that works for him,
13 but it may not be able to take advantage of
14 every little sentence there.

15 So, it's part of a bigger issue, not just
16 you don't do it based on one little paragraph,
17 I guess.

18 Q. And, in this context, and in others, when the
19 Company sees that it may have a need, it should
20 come to you to try and discuss that as early as
21 possible in the process, if it's looking to get
22 some accommodation. Would you agree with that?

23 A. I would think, yes. You don't -- well, it's
24 hard, after the season, to come in and ask for

[Witness: Knepper]

1 approval, when it's already been done. So,
2 that's really not seeking approval, in my
3 opinion, that's just kind of looking for some
4 cost recovery. And I don't see that, we didn't
5 have those discussions this year.

6 Q. I think I worded it more affirmatively. It's
7 encouraging to come to you in advance, isn't
8 that right?

9 A. I think we said that, and we also said it last
10 year in the transcript.

11 CHAIRMAN HONIGBERG: That's all I
12 have.

13 Mr. Speidel, do you have any further
14 questions for Mr. Knepper?

15 MR. SPEIDEL: None. Thank you.

16 CHAIRMAN HONIGBERG: All right. Mr.
17 Knepper, I think you can -- well, actually,
18 before you leave, Mr. Knepper, I just want
19 to -- before we strike the ID on exhibits. My
20 copy of Exhibit 3 has a blank second page. Is
21 that what everybody else has as well?

22 MR. SPEIDEL: Yes. That's part of
23 the document production stack that we
24 submitted. You can tear that right out, if you

1 so desire. It serves no purpose, but it's
2 there. But I believe it's complete, in terms
3 of all Pages 1 through 4 are part of the
4 document.

5 CHAIRMAN HONIGBERG: Is that right,
6 Mr. Knepper?

7 WITNESS KNEPPER: Yes.

8 CHAIRMAN HONIGBERG: All right. So,
9 I take it there's no objection to striking the
10 ID on Exhibits 1, 2, and 3?

11 MR. SHEEHAN: That's correct.

12 (Atty. Speidel indicating in the
13 negative.)

14 CHAIRMAN HONIGBERG: All right. They
15 will be full exhibits.

16 Mr. Knepper, you can either sit and
17 stay there or return to your seat. It's up to
18 you.

19 I think the only other thing we need
20 to do is give the parties a chance to sum up,
21 is that correct?

22 *[No verbal response.]*

23 CHAIRMAN HONIGBERG: All right.
24 Mr. Speidel.

1 MR. SPEIDEL: The Settlement
2 Agreement between Liberty and Staff, and
3 approved by the Commission, includes provisions
4 Subsection (d), 2.7, which prohibits recovery
5 of carryover costs in excess of 5 percent
6 unless approved by the Safety Division. The
7 Safety Division does not approve of recovery of
8 those costs. Allowing recovery through the
9 proposed rate increase would violate the terms
10 and conditions of the Settlement Agreement.

11 Liberty will be able to seek recovery
12 of those costs in its 2017 full rate filing.
13 Liberty's 2017 rate filing is expecting to seek
14 recovery of all capital investment, which would
15 encompass CIBS costs, and there would not be a
16 step adjustment specific to CIBS costs.

17 Aside from those caveats related to
18 the carryover costs, Staff requests approval of
19 the Commission's Petition before it, filed by
20 Liberty, regarding the CIBS recovery.

21 Thank you very much.

22 CHAIRMAN HONIGBERG: Mr. Sheehan.

23 MR. SHEEHAN: Thank you. At the high
24 level, as Mr. Speidel just finished, there has

1 been no challenge to the numbers, to the pipes
2 replaced, to the selection of the pipes, to the
3 work that was done, to the fact that it was
4 used and useful. So, what you're faced with
5 are the two numbers that Mr. Simek put out at
6 the outset with and without the carryover
7 costs.

8 Based in part on Mr. Knepper's
9 testimony and in part on our experience in the
10 last couple years, we elected today to put on
11 some evidence regarding this carryover cost,
12 just to put the issue out there.

13 We fully recognize it is Mr.
14 Knepper's call. We fully recognize he has
15 declined at this time to pay those carryover
16 costs. We have spoken to him in the past, at
17 last year's hearing, the hearing before that.
18 We do meet with him on this thing in particular
19 and have these conversations. So, this isn't
20 the first time they have heard of our
21 frustrations with trying to meet this carryover
22 cost provision.

23 So, I won't repeat the arguments, why
24 we think it's not a good idea, why it's not

1 working. And, as you heard Mr. MacDonald say,
2 we're trying to get as much pipe out as we can
3 every year, and we're basically ignoring this
4 provision as we do the work. And it becomes an
5 after-the-fact annoyance, for lack of a better
6 word, that we want -- the Staff is encouraging
7 us to take as much pipe out as we can, and then
8 they're dinging us, because we work right up to
9 the end of the year. That's how we see it, and
10 that why we decided to raise it in this
11 hearing.

12 But, again, it's a little bit of a
13 mountain out of a molehill. And we appreciate
14 Staff's support for all the rest of the filing
15 that we made today.

16 And we ask that the Commission
17 approve the higher number, although we
18 recognize that you're subject to the Settlement
19 Agreement language that would probably leave
20 you with the lower numbers.

21 With that, I will close.

22 CHAIRMAN HONIGBERG: All right.
23 Thank you all. If there's nothing else then,
24 we'll adjourn and take this matter under

advisement.

*(Whereupon the hearing was
adjourned at 11:55 a.m.)*