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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 18,, 2010 - 10:12 a.m.
Concord, New Hampshire

RE: DG 10-139
NATIONAL GRID NH:
Cast Iron/Bare Steel Replacement Program.

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

Sandy Deno, Clerk

APPEARANCES: Reptg. National Grid NH:
Steven V. Camerino, Esq. (McLane, Graf...)

Reptg. PUC Staff:
Matthew Fossum, Esq.

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

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I N D E X

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THOMAS FINNERAL

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E X H I B I T S

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EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

4

1

Fiscal Year 2010 (April 1, 2009 -
March 31, 2010) Cast Iron/Bare Steel
Replacement Program Results Filing
(05-17-10)

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Expanded table of "Completed
FY09-10 NH CIBS Program" (2 pages)

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RESERVED (Mass. court decision
regarding road degradation fee and
also document regarding the Standard
Restoration Policy for public
utilities from the Mass. DPU)

36

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RESERVED (Photograph and
description of physical piece of
evidence being a section of pipe
provided by Witness Knepper)

51

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RESERVED (Report cataloging the
pipe removed, with a description,
etc.)

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1 P R O C E E D I N G

2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open the hearing in docket DG 10-139. On
4 May 17, 2010, National Grid filed its fiscal year 2010
5 Cast Iron/Bare Steel Replacement Program results. The
6 Company seeks a permanent increase in its base
7 distribution rates of \$479,462 effective on or after
8 July 1, 2010. We issued an order of notice on May 24
9 setting the hearing for this morning. And, I'll note for
10 the record that the affidavit of publication has been
11 filed.

12 So, if we can take appearances please.

13 MR. CAMERINO: Good morning,
14 Commissioners. Steve Camerino, from McLane, Graf,
15 Raulerson & Middleton, on behalf of National Grid NH.
16 And, with me at counsel table this morning is Geoffrey
17 Kirsch, who is a summer associate with our firm. And, I
18 thought he would want to see the exciting world of public
19 utilities and asked him to join us today.

20 CHAIRMAN GETZ: We'll do our best. Good
21 morning.

22 MR. KIRSCH: Good morning.

23 MR. FOSSUM: And, good morning. Matthew
24 Fossum, for the Staff of the Commission. And, with me

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1 today are Randall Knepper and Steve Frink from Commission
2 Staff.

3 CHAIRMAN GETZ: Okay. Good morning.
4 Are you ready to proceed, Mr. Camerino?

5 MR. CAMERINO: Yes, I am. The Company
6 calls Mindy Rosen and Thomas Finneral. And, with the
7 Staff's agreement, I believe we're going to present them
8 as a panel. And, while they're taking the stand, I
9 actually have two exhibits to mark. I told the Clerk it
10 was one. One is the Company's filing, which was submitted
11 under cover letter dated May 17th, 2010. And, the other
12 is an expanded version of a table that's in there. And,
13 probably you'll find it's not expanded enough for normal
14 eyesight. And, if we could mark the May 17th filing as
15 "Exhibit 1" for identification and the expanded two-page
16 table as "Exhibit 2" please.

17 CHAIRMAN GETZ: They will be so marked.
18 (The documents, as described, were
19 herewith marked as Exhibit 1 and
20 Exhibit 2, respectively, for
21 identification.)

22 MR. CAMERINO: And, just again for the
23 record, the expanded table is, if you look at Exhibit 1,
24 immediately after the text, there is a page that, in the

[WITNESS PANEL: Rosen ~ Finneral]

1 upper right-hand corner says "Attachment A", and it says
2 "Page 1 of 1". And, it doesn't photocopy properly, so you
3 wouldn't want to refer to that page. Exhibit 2 is that
4 information broken into two pages. Thank you.

5 (Whereupon Mindy Rosen and Thomas
6 Finneral were duly sworn and cautioned
7 by the Court Reporter.)

8 MINDY ROSEN, SWORN

9 THOMAS FINNERAL, SWORN

10 DIRECT EXAMINATION

11 BY MR. CAMERINO:

12 Q. Mr. Finneral, would you state your name and business
13 address for the record please.

14 A. (Finneral) Thomas Finneral, 40 Sylvan Road, Waltham
15 Mass.

16 Q. And, by whom are you employed and in what position?

17 A. (Finneral) National Grid. I'm the Manager of the
18 Reliability Construction Process for New England.

19 Q. Can you just briefly summarize your responsibilities in
20 that role?

21 A. (Finneral) As it relates to CIBS, I was the manager for
22 the program from December till April time frame.

23 Q. And, Ms. Rosen, can you give your name and business
24 address please.

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[WITNESS PANEL: Rosen ~ Finneral]

1 A. (Rosen) Mindy Rosen, 40 Sylvan Road, Waltham.

2 Q. And, what is your position with the Company and what
3 are your responsibilities in that regard?

4 A. (Rosen) I am Lead Financial Analyst, and I provide
5 accounting support for regulatory filings for New
6 Hampshire and Massachusetts.

7 Q. And, what was your role with regard to the filing in
8 this case?

9 A. (Rosen) I prepared the revenue requirement.

10 Q. And, have the two of you reviewed the Company's May
11 17th filing in this case?

12 A. (Rosen) Yes.

13 A. (Finneral) Yes.

14 Q. And, to the best of your knowledge and belief, is it
15 true and accurate?

16 A. (Rosen) Yes.

17 A. (Finneral) Yes.

18 Q. And, subject to any changes that you're going to
19 present in your testimony today, if you had to present
20 that information again would it be as provided on May
21 17th?

22 A. (Rosen) Yes.

23 A. (Finneral) Yes.

24 Q. All right. Mr. Finneral, I'd like to start with you.

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[WITNESS PANEL: Rosen ~ Finneral]

1 Could you just provide an overview for the Commission
2 of the Cast Iron/Bare Steel Replacement Program.

3 A. (Finneral) Sure. It arose from the Merger Settlement
4 Agreement, the National Grid merger with EnergyNorth.
5 It was designed to ensure the ongoing cast iron/bare
6 steel main/service replacement, recognizing risk
7 associated with the older cast iron/bare steel being
8 prone to leaks and cast iron breaks. Recognizes that
9 the Company had been doing an ongoing historical level
10 of around \$500,000 of replacement work in the past,
11 which is deducted from the investment.

12 Q. And, is there a process by which the Company makes a
13 proposal for which main is to be replaced?

14 A. (Finneral) Yes, it is. Our Engineering Department,
15 System Integrity, does an evaluation of all of the cast
16 iron and bare steel segments within the State of New
17 Hampshire; risk ranks them, and then we sit down with
18 Staff, reviews those, and comes up with a proposal for
19 the following year.

20 Q. And, then, what does the Company do, once it's met with
21 Staff and there's agreement on what main is going to be
22 replaced for the program, what are the next steps?

23 A. (Finneral) We take the list and we do field visits. We
24 estimate the project to get a proposed cost and develop

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[WITNESS PANEL: Rosen ~ Finneral]

1 an overall plan for the program.

2 Q. And, would you provide an overview for the Commission
3 of the projects that were agreed upon for the 2009
4 construction season?

5 A. (Finneral) Yes. There were 24 projects that were
6 proposed, for an estimated mileage of 4.08 miles, which
7 encompassed about 325 service replacements, at a total
8 estimated cost of 4,029,000.

9 Q. And, where in the filing would the Commission find
10 that, those projects? Is that -- let me just show you
11 Exhibit 2 and ask you what's on there?

12 A. (Finneral) A trick question. Yes. They're outlined in
13 the exhibit submitted, the may 17th filing.

14 Q. So, that's -- is that the Exhibit 2, the document that
15 I just showed you, is that where the projects for the
16 2009 construction season are?

17 A. (Finneral) Yes, it is.

18 Q. All right. So, the Company made a -- came to agreement
19 with the Staff as to what projects would be worked on
20 in 2009?

21 A. (Finneral) Yes.

22 Q. And, then, what happened after that to those projects?

23 A. (Finneral) Once they were agreed upon, they were turned
24 over to Construction for execution. Out of the 24

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[WITNESS PANEL: Rosen ~ Finneral]

1 projects that were proposed, there were two of them
2 that were -- ended up being deferred, because the
3 streets were recently paved. We subsequently walked in
4 two additional projects that were of equal risk ranked
5 within I believe the City of Nashua. And, there was
6 one additional project that was on the original filing
7 that we took out of the CIBS Program. It was
8 completed, but it ended up being coated steel pipe.

9 Q. And, so, the pipe that was replaced was not cast
10 iron/bare steel pipe?

11 A. (Finneral) Correct.

12 Q. And, so, is that project included in the dollars that
13 are being sought here today?

14 A. (Finneral) No, it is not.

15 Q. Okay. And, you had indicated that the Company
16 originally proposed 4.08 miles for approximately
17 \$4 million, is that correct?

18 A. (Finneral) Correct.

19 Q. What was the final number of miles and final cost that
20 the program actually costs for 2009?

21 A. (Finneral) We ended up installing 4 miles, at a total
22 cost of 5,028,000.

23 Q. And, by the way, I referred to "2009". That's the
24 construction season, is that correct?

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[WITNESS PANEL: Rosen ~ Finneral]

1 A. (Finneral) Yes, it is.

2 Q. What fiscal year are these projects in for the Company?

3 A. (Finneral) Fiscal '10.

4 Q. Okay. All right. The difference in cost that you
5 indicated between what the Company originally proposed
6 and what it actually spent, could you summarize what
7 the reasons for that difference is?

8 A. (Finneral) Yes. There were primarily three, three
9 major drivers. The first being the overheads that got
10 applied to the projects. When the program was
11 developed last January, we used the current overhead
12 rating. Every month to month the overheads varied, and
13 they vary year over year, depending on the capital
14 expenditures. So, the actual overheads that got
15 applied to the projects that got completed varied from
16 an estimated amount of 41 percent to an actual overhead
17 rate of 61 percent.

18 Q. And, what other reasons were there for a variation from
19 the budget to actual?

20 A. (Finneral) Again, when we looked at the program back in
21 January, it was a snapshot in time what the loading
22 rates were at that time. The money that actually --
23 the overheads that actually got applied, you know,
24 varies, it varies from month to month. And, there were

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[WITNESS PANEL: Rosen ~ Finneral]

1 more capital expenditures -- or, actually, there was
2 less capital expenditures in the latter half of the
3 year, but it got more of the overheads.

4 Q. All right. Let's put the overheads aside for a moment,
5 we'll come back to that. Were there other reasons for
6 budget variations besides the change in overheads from
7 what was originally estimated?

8 A. (Finneral) Yes.

9 Q. Okay. And, what were those?

10 A. (Finneral) One of the second drivers, when the program
11 was originally developed, we were using the existing
12 contract pricing that we had in place. Subsequent to
13 that, --

14 Q. Okay. Let me just stop you. When you say "contract
15 pricing", contracts for what?

16 A. (Finneral) For mains and service installation
17 replacement.

18 Q. So, those are not done by Company personnel, they're
19 done by outside contractors?

20 A. (Finneral) They are done by a third party contractor,
21 correct.

22 Q. Okay. So, could you explain why those costs would
23 vary?

24 A. (Finneral) Subsequent to the estimates being developed,

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[WITNESS PANEL: Rosen ~ Finneral]

1 there was an additional bid for unit pricing for the
2 State of New Hampshire -- or, actually, for all of
3 National Grid in New England's mains and services
4 contract work. So that there was a contract change
5 after we submitted the filing, a new rate structure
6 with our contractor.

7 Q. So, the rates that were in effect when you were doing
8 the construction were different from the rates that
9 were in effect when you did the estimate?

10 A. (Finneral) That is correct.

11 Q. Okay. What other reasons were there for a variance
12 from the budget to actual?

13 A. (Finneral) The third major driver was just an increase
14 in scope to some of the projects. Some additional
15 ledge that they ran into out in the field, extra deep
16 mains, we had to wood sheath a lot of the excavations.
17 And, some lengths of the projects changed.

18 Q. I want to take you back to the overheads, just so the
19 record is clear. Can you just summarize briefly for
20 the Commission why would the overheads that the Company
21 actually applied to the projects differ from what was
22 estimated at the time the budget was put together?

23 A. (Finneral) Again, when the estimates were generated
24 back in the January time frame, we used the historical

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[WITNESS PANEL: Rosen ~ Finneral]

1 loading rate, which was spread across the capital
2 expenditures at that time. There were additional
3 capital expenditures through January, February, and
4 March that didn't get included.

5 Q. Let me ask it this way. The loading factor are
6 overhead costs that are associated with the Company's,
7 we'll say, managing these projects, is that fair?

8 A. (Finneral) Pensions, salaries, yes.

9 Q. And, how do those costs get applied to a capital
10 project? What is done to --

11 A. (Finneral) Four major --

12 Q. Excuse me, let me just finish. What is done to flow
13 those costs through to the project?

14 A. (Finneral) There are four major components that get
15 overheads applied to them; our company labor, our
16 contracted labor, management labor, union labor, and
17 the material cost. They get spread across those
18 projects, across those individual cost categories month
19 over month. And, the rate varies every month,
20 depending on the capital expenditures.

21 Q. So, if I understand correctly, if you have \$100,000 of
22 one of those types of costs on a project, you multiply
23 that by some rate that represents the overheads that
24 the Company needs to recover?

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[WITNESS PANEL: Rosen ~ Finneral]

1 A. (Finneral) Yes.

2 Q. And, it's that rate that changed, from when you did the
3 budget to when you actually implemented or carried out
4 the projects?

5 A. (Finneral) Correct.

6 Q. Okay. And, I think you said that that rate changes,
7 depending on the dollars of capital projects that the
8 Company has, is that correct?

9 A. (Finneral) Yes. It's a relatively fixed cost that gets
10 spread across all capital expenditures.

11 Q. So, that rate, if you were trying to figure out that
12 rate in simple form, would be the numerator would be
13 those fixed costs that you just described that need to
14 be recovered, divided by the amount of capital projects
15 at any given time?

16 A. (Finneral) Correct. And, depending on when the
17 projects get closed out is how many projects that gets
18 applied to.

19 Q. Okay. And, it's that rate that was different when you
20 constructed the projects than when you estimated their
21 cost?

22 A. (Finneral) Correct.

23 Q. Okay. Ms. Rosen, I'd like to ask you about the rate
24 impact of the capital expenditures that Mr. Finneral

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[WITNESS PANEL: Rosen ~ Finnerall]

1 referred to. Can you start by just giving us an
2 overview of the total capital dollars that are being
3 recovered through the rate that the Company is -- rate
4 change that the Company is proposing in this
5 proceeding?

6 A. (Rosen) The total capital involved was \$5,028,469. We
7 then went in and determined that there was \$179,918
8 which was spent between April 1st and June 30th.
9 Because we are currently in a rate case, those dollars
10 will be included in the rate base in that rate case.
11 So, we immediately excluded them from this program so
12 that there would be no double counting. We are then
13 allowed or we are then required to take a \$500,000
14 exclusion off of that cost. But we prorated the
15 exclusion for the percentage of spending that was done
16 in the first three months. That was a 3.58 percent
17 rate of spending for the year. So, we excluded \$17,890
18 from that \$500,000, to come up with \$482,110, which we
19 excluded from the total spent. So, we started with
20 5 million, excluded 179, got to a number of 4,848,550,
21 excluded 482,110, for an incremental spend of
22 \$4,366,440.

23 That's the amount that we started with.
24 We adjusted it for the deferred tax effect to have a

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[WITNESS PANEL: Rosen ~ Finnerall]

1 rate base impact of \$2,537,969. To that rate base, we
2 applied an 11.53 percent rate of return, which was the
3 rate of return agreed upon in docket DG 08-009. Added
4 a charge of 98,000 -- excuse me. That left us a return
5 of 292,628. To that we added depreciation of \$98,794
6 and property taxes of \$88,340, for a total rate impact
7 of \$479,762.

8 Q. And, that change in the revenue requirement, the
9 \$479,000, can you give us a sense of what that is in
10 terms of bill impacts for -- on an overall basis and
11 for an average residential customer?

12 A. (Rosen) We took the \$479,762 and converted it on a per
13 unit basis to get a per therm increase factor based on
14 the annual throughput in our cost of gas filing. That
15 factor turns out to be 0.0032. On a typical
16 residential bill, again, using the typical residential
17 bill from the cost of gas filings, the typical usage
18 would be 1,250 therms, that would cause a rate increase
19 of \$3.98, or one quarter of 1 percent.

20 Q. And, when you gave the 0.0032, that's not dollars and
21 cents, that's a percentage figure?

22 A. (Rosen) Yes.

23 Q. And, if I understood the zeros correctly, that would
24 translate into 0.32 percent?

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[WITNESS PANEL: Rosen ~ Finneral]

1 A. (Rosen) Correct.

2 Q. Okay. Can you point the Commission to where in
3 Exhibit 1 the Company's initial filing it can find all
4 of the rate impacts by class?

5 A. (Rosen) It can be found on Page 4 of 4.

6 Q. Okay. Mr. Finneral, I want to go back to you. Has the
7 Company had discussions with Staff regarding possible
8 changes to the CIBS Program?

9 A. (Finneral) Yes.

10 Q. Could you just briefly summarize the nature of those
11 discussions and where they stand.

12 A. (Finneral) The discussions have been around pipe
13 sizing, specifically increasing the pipe size from
14 existing conditions. We had a technical session
15 earlier in the week, worked with our Gas
16 Planning/Reliability Group and Staff, to kind of review
17 our policy, walk through the network strategy model of
18 the projects that we proposed. And, currently, our
19 counsel and counsel to the Commission are working on an
20 agreement going forward.

21 Q. Okay. Thank you. And, then, the last subject I want
22 to talk to you about is issues related to the costs
23 that the Company is incurring with regard to municipal
24 permitting fees and pavement restoration. First, with

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[WITNESS PANEL: Rosen ~ Finneral]

1 regard to municipal permitting fees, can you describe
2 the nature of those fees that the Company has begun to
3 incur?

4 A. (Finneral) There are two communities within the state,
5 City of Concord and the City of Manchester, that are
6 starting to impose road degradation fees, which are on
7 top of the existing permit fees that we currently pay,
8 and on top of the current restoration standards that we
9 abide by. For Manchester and Concord, it equates to
10 around \$5.00 a square foot when working within the
11 roadway.

12 Q. And, do you have an estimated cost impact of those road
13 degradation fees for the coming construction year?

14 A. (Finneral) Yes. For the proposed project, for the
15 proposed 15 projects that are with Construction for
16 this year, there's an estimated cost increase of
17 \$400,000 due to these road degradation fees.

18 Q. How does that increase of \$400,000 compare to the total
19 budget for the CIBS Program for the year?

20 A. (Finneral) About 10 percent of the budget.

21 Q. Okay. What steps is the Company taking to try to
22 mitigate or eliminate those fees?

23 A. (Finneral) We've reached out to both cities. On
24 Tuesday, we filed suit against the City of Manchester

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[WITNESS PANEL: Rosen ~ Finneral]

1 to seek an injunction. Right now, we are -- they have
2 stopped issuing permits for non-emergency work to
3 National Grid for working in Manchester.

4 For the City of Concord, we have a
5 meeting scheduled for next year with the City
6 Solicitor. We've obviously expressed our concerns to
7 them. And, again, we have a meeting set up next week
8 with the City Solicitor to work out an arrangement.

9 Q. So, with regard to Manchester, you said that "they have
10 stopped issuing permits." And, is that because the
11 Company has refused to pay the fee?

12 A. (Finneral) Correct.

13 Q. And, so, I take it that, if it doesn't pay the fee,
14 it's not allowed to do the excavation work?

15 A. (Finneral) For non-emergency work, yes.

16 Q. Okay. Now, you indicated that road degradation fee,
17 that's in addition to the actual costs that the Company
18 incurs to restore the pavement?

19 A. (Finneral) Correct.

20 Q. Okay. And, do you have a view as to what those -- the
21 appropriateness or level of those pavement restoration
22 requirements in New Hampshire?

23 A. (Finneral) For the State of New Hampshire in general,
24 the road restoration requirements are more stringent

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[WITNESS PANEL: Rosen ~ Finneral]

1 than other municipalities or states that we work in.
2 We abide by the standard within Massachusetts that the
3 DTE set forth for the public utilities working within a
4 municipality. And, the requirements in New Hampshire
5 far exceed the requirements that we do in
6 Massachusetts.

7 Q. And, when you say "the requirements in New Hampshire",
8 are those requirements set by the municipalities or by
9 the state?

10 A. (Finneral) Those are set by the municipalities.

11 Q. And, so, they vary from municipality to municipality?

12 A. (Finneral) Yes, they do.

13 Q. Have you estimated what the cost to the program is of
14 the extent -- to the extent that the Company believes
15 that those requirements are in excess of what they need
16 to be, have you estimated what that additional cost
17 impact is?

18 A. (Finneral) For the previous year, fiscal '10, it
19 equates to around \$390,000 of additional restoration
20 requirements.

21 Q. And, that additional cost is separate from the \$400,000
22 of the road degradation costs you're talking about?

23 A. (Finneral) Yes.

24 CHAIRMAN GETZ: Is that just a

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[WITNESS PANEL: Rosen ~ Finneral]

1 Manchester number or is that a state number?

2 WITNESS FINNERAL: That's a state
3 number.

4 BY MR. CAMERINO:

5 Q. So, those two together total \$790,000 annually?

6 A. (Finneral) Correct.

7 Q. And, the total CIBS Program again is how much?

8 A. (Finneral) \$4 million for this year.

9 MR. CAMERINO: Thank you. That
10 concludes my direct examination.

11 CHAIRMAN GETZ: Thank you. Mr. Fossum.

12 MR. FOSSUM: Thank you.

13 CROSS-EXAMINATION

14 BY MR. FOSSUM:

15 Q. I'll begin with Ms. Rosen. Turning to Exhibit 1,
16 Attachment B, Page 4 of 4, which sets out bill impacts,
17 it lists at the top of the page "Total Year 1", "Total
18 Year 2". "Year 1" and "Year 2" refer to which years?

19 A. (Rosen) Fiscal Year '10 and then the projection for
20 Fiscal Year '11.

21 Q. Okay. So, this year and next year. So, this doesn't
22 include last year's CIBS spending and impact, correct?

23 A. (Rosen) That's correct.

24 Q. Do you happen to know the increase to base rates from

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[WITNESS PANEL: Rosen ~ Finneral]

1 last year's CIBS adjustment?

2 A. (Rosen) Yes. It was 0.2 percent for an overall bill.

3 For a typical residential customer, it was

4 0.18 percent.

5 Q. So, that 0.18 percent is in addition to the -- for a
6 residential customer, it would be then in addition to
7 the 0.5 percent that is listed on Attachment B, Page 4
8 of 4?

9 A. (Rosen) Excuse me. I'm sorry, I was reading off the
10 wrong line. It was 0.14 percent, or \$2.54. So, yes,
11 it would be 0.14 percent for the prior year and
12 0.25 percent for Fiscal Year '10.

13 Q. Okay. Thank you. Mr. Finneral, it's Staff's
14 understanding that there was supposed to be at some
15 point some training done by company personnel relating
16 to pipe evaluations and testing procedures. Did that
17 training ever occur?

18 A. (Finneral) It has not occurred as of yet. We're in the
19 process of changing our integrity standard. I believe
20 that is expected -- I can't say when it's expected to
21 be finalized, I'm not sure. But, once that's
22 finalized, then we will schedule the training and
23 invite Staff to the training session. But we were
24 waiting for the policy to be finalized.

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[WITNESS PANEL: Rosen ~ Finneral]

1 Q. Okay. And, I know you just said you're "not sure", but
2 do you have an estimate of when that might be
3 completed?

4 A. (Finneral) I can't give an estimate. I'm not sure.

5 Q. Would it happen prior to the end of this year or is
6 even that too unknown?

7 A. (Finneral) I would venture to say "yes", prior to the
8 end of this year.

9 MR. FOSSUM: Thank you. I have nothing
10 further at this time. Thank you.

11 CHAIRMAN GETZ: Thank you. Commissioner
12 Below.

13 CMSR. BELOW: Yes, I do have some
14 questions.

15 BY CMSR. BELOW:

16 Q. When was the road degradation fee first imposed or when
17 did they first seek to impose it?

18 A. (Finneral) I believe it was the end of last year,
19 December time frame, I believe.

20 Q. So, maybe you already said this and maybe I missed it,
21 but -- so, they sought to impose it on the projects
22 that you did last year. Did you pay it then for last
23 year?

24 A. (Finneral) It was not imposed last year. I believe it

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[WITNESS PANEL: Rosen ~ Finneral]

1 was put in place to start this fiscal year, the start
2 of this year.

3 Q. Okay. So, you haven't actually paid any of these road
4 degradations fees?

5 A. (Finneral) We have not paid them as of yet.

6 Q. And, have you ever encountered such a fee anywhere
7 else?

8 A. (Finneral) Yes, we have.

9 Q. Where?

10 A. (Finneral) In Massachusetts. There were two
11 communities where we had similar -- similar issues,
12 Somerville and Newton.

13 Q. And, what happened there?

14 A. (Finneral) We ended up filing suit and went to the
15 Supreme Court.

16 Q. And, what was decided?

17 A. (Finneral) It's kind of the basis for the DTE, now the
18 DPU, to come up with a restoration standard for public
19 utilities to follow when working with municipalities.

20 Q. So, was the fee struck down? I mean, --

21 A. (Finneral) I don't have the specific language of the
22 agreement, but, yes, we did not have to pay the fees.

23 Q. So, it became the standard that was set by then DTE,
24 now DPU, on a statewide basis, so there's a uniform

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[WITNESS PANEL: Rosen ~ Finneral]

1 standard throughout the State of Massachusetts?

2 A. (Finneral) Correct.

3 Q. Okay. Looking at Exhibit 2, I'm a little confused. I
4 believe you said that the actual mileage was less than
5 the estimated mileage by about two-tenths of a mile, is
6 that correct?

7 A. (Finneral) By, let's see, we had proposed 4.08; we
8 installed 4 miles.

9 Q. Okay. By 0.08 miles --

10 A. (Finneral) Yes.

11 Q. -- actual was less than estimated. When I look at
12 Exhibit 2, and I look at the eighth column over, it
13 says "Estimate footage versus actual footage (over" in
14 red, "under" in black. And, then, if I follow it down
15 to the last figure in the column, it shows an overage
16 in brackets of "2,500" feet, which I guess roughly
17 corresponds to the 0.08 miles. So, that is indicating
18 that the actual was over the -- was under the estimate
19 by 2,500 feet, is that correct?

20 A. (Finneral) Correct.

21 Q. But it's in red, which indicates it's over. So, it's
22 actually the estimate was over the actual by
23 2,500 feet?

24 A. (Finneral) There were some changes within the program.

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[WITNESS PANEL: Rosen ~ Finneral]

1 There were a couple of projects that got removed from
2 the program, additional ones got added to it. So,
3 there was a change in footage. A couple of the
4 projects we actually installed less pipe, because some
5 of the projects were -- part of the projects were
6 recently paved we couldn't do the full scope of the
7 project.

8 Q. Right. I'm just trying to understand how you show
9 these two columns. Because, if I go up a line and look
10 at a specific project added, Project 695905, it shows
11 "61" feet in parentheses in red, which I guess I take
12 that to mean that the actual was under the estimate by
13 61 feet. Am I reading that correctly?

14 A. (Finneral) The actual footage for that particular
15 project was 236 feet. We had proposed 175 feet.

16 Q. So, the actual was less than the estimate by 61 feet --
17 no, no. It was more than the estimate. The actual is
18 more than the estimate.

19 A. (Finneral) It was more, yes, for that particular one it
20 was.

21 Q. I guess I'm still confused. Because then when I look
22 at Column 9 and I try to read the numbers, you have
23 estimated costs versus actual. And, if I go to the
24 total at the bottom of that column, it's "1,097,302" in

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[WITNESS PANEL: Rosen ~ Finneral]

1 red in parentheses. And, I guess part of why I'm
2 confused, because parentheses usually means a negative
3 number, but the fact that it's in red suggests that
4 it's an overage figure. And, in this case, it seems to
5 be that the actual was over the estimate by \$1,097,302,
6 is that correct?

7 A. (Finneral) Yes. You're interpreting correct.

8 Q. Okay. Well, which seems to be the opposite of how to
9 read the eighth column, the previous column, in terms
10 of what red in parentheses means. I just wonder, for
11 future purposes, you could perhaps indicate overages as
12 a positive number and underage as a negative number,
13 and then show actual compared to estimate. So that, if
14 the actual is more than the estimate, it would appear
15 as a positive number; and, if the actual is less than
16 the estimate, it would appear as a negative number.

17 A. (Finneral) We could certainly do that.

18 CMSR. BELOW: Okay. Thank you. That's
19 all.

20 CHAIRMAN GETZ: Commissioner Ignatius.

21 CMSR. BELOW: Oh, wait. That's not all.
22 I had some questions about the overhead.

23 BY CMSR. BELOW:

24 Q. Could you characterize what the fixed costs are. You

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[WITNESS PANEL: Rosen ~ Finneral]

1 said it's mostly -- is it entirely fixed costs or are
2 any of the overhead figures/components variable or are
3 partially variable?

4 A. (Finneral) I believe some of them are partially
5 variable, like the -- I guess the store's overhead,
6 depending on the material handling charges.

7 Q. So, what are the components of fixed, the major
8 components of fixed -- I mean, of overhead?

9 A. (Finneral) Salaries, pensions, paid absences, vacation
10 time, payroll, taxes, fringe benefits.

11 Q. So, I presume, for overall National Grid operations,
12 you allocate different costs by different activity
13 areas. So, you've got some block of costs that are
14 allocated to these kind of capital programs. Is there
15 an amount that's allocated to capital programs versus
16 general maintenance, distribution operations?

17 A. (Rosen) Mr. Finneral, may I answer?

18 A. (Finneral) Please do.

19 A. (Rosen) Yes. With the overhead burden rates, they're
20 first split between O&M and capital, and then applied
21 on each project. If a project were a capital project,
22 it might get a complete burden if it's just capital.
23 But they are split between overhead and -- between O&M
24 and capital.

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[WITNESS PANEL: Rosen ~ Finnerall]

1 Q. And, I'm trying to understand whether you back into the
2 rate or if you figure out the rate and then apply it to
3 the costs as they're expended? Because it sounded like
4 you, in a sense, take -- for the year, you had a
5 certain amount of costs that you allocated to capital
6 projects. Then, you took the capital projects and
7 divided those. And, the 61 percent is more of a
8 result, an indicator of what happened. Or, did you do
9 something where you kind of figured out, "well, it's
10 going to be -- work out to be 61", then you apply
11 61 percent to the individual expenditures?

12 A. (Rosen) They calculate the 61 percent, and then they
13 apply it to the individual projects. The reason it
14 varies is the number of individual projects that might
15 be open at any one point in time varies. So, your
16 denominator is always varying. We have a certain set
17 amount of fixed costs that are being applied to a
18 variable population.

19 Q. So, is it based on an estimate at what those -- that
20 population of capital projects is for the year and is
21 there some reconciliation? Or is it -- I'm just still
22 a little confused as to how you get to the -- to meet
23 the exact number of the overhead cost?

24 A. (Rosen) They're calculated monthly based on actual

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[WITNESS PANEL: Rosen ~ Finneral]

1 expenditures. And, they are trued up at the end of the
2 year.

3 Q. Okay. So, is 61 the final sort of trued up figure in
4 this instance?

5 A. (Finneral) Sixty-one?

6 Q. The 61 percent.

7 A. (Finneral) Yes. That is what we actually realized in
8 Fiscal '10.

9 Q. Okay.

10 A. (Finneral) For this body of work.

11 Q. And, what are you estimating for the coming year, which
12 I guess is the year -- the construction year that we're
13 in?

14 A. (Finneral) It varies based on project, anywhere from
15 55 percent to 65 percent, depending on mix of
16 materials, contracted labor, and in-house resources.

17 CMSR. BELOW: Okay. That's all.

18 CHAIRMAN GETZ: Thank you.

19 CMSR. IGNATIUS: Good morning.

20 Commissioner Below's questions clarified some of the areas
21 I was concerned with, so that helps. They, of course,
22 raised some other questions.

23 BY CMSR. IGNATIUS:

24 Q. On the calculation of the overhead, Ms. Rosen, you said

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[WITNESS PANEL: Rosen ~ Finnerall]

1 that it would "depend on how many projects were open at
2 any given time", which is confusing to me. If it's --
3 particularly, if you're describing a construction
4 season that has a beginning and end, it has some
5 seasonal aspect to it, it sounds as though the last
6 project left for the year will have an enormous
7 allocation to it, because that's the only one open to
8 it. And, yet, the work being done, from an overhead
9 perspective, is the same as the one done at the
10 beginning of the season where there are many open.
11 And, it seems like an odd way to calculate. Could you
12 not do it over the course of the entire project have
13 one number that is based on actual expenses and is
14 uniform so that it doesn't move on you like that?

15 A. (Rosen) It's spread over the amount, and maybe I did
16 not explain this well, it's spread over the amount of
17 jobs at the time. So, we're constantly adding jobs and
18 deleting jobs. So that, if there's a population of
19 expenses for the quarter, they have to be applied as
20 overhead to jobs, but there are jobs coming in and
21 going out all the time. So, your numerator of fixed
22 costs stays the same. But, once a job closes, you
23 can't go back and retroactively add costs to that. So,
24 you look at what was spent in that quarter and spread

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[WITNESS PANEL: Rosen ~ Finneral]

1 those costs over the work that was done in that
2 quarter.

3 Q. So, every quarter you run new allocation numbers?

4 A. (Rosen) Yes.

5 A. (Finneral) And reconciled at the end of each quarter.

6 A. (Rosen) And, it's trued up at the end of the year?

7 A. (Finneral) Correct.

8 Q. In the cost estimates overall, it looks as though,
9 between the different reasons for expenses changing,
10 that it was about a 20 percent variance from what was
11 estimated, is that right?

12 A. (Finneral) That's a fair statement.

13 Q. Do you have any way to have better confidence in the
14 numbers for coming years?

15 A. (Finneral) We hope we do. You know, every year we try
16 to improve on these. We'd like to come in at exactly
17 the way we estimate them. Our senior executives would
18 like the same, as I'm sure you would. So, every year,
19 you know, we try to improve on it. What we've -- steps
20 we've taken for this year's estimates, our construction
21 supervisors have physically walked down all these jobs.
22 We've got a new contract in place that they're using to
23 generate the estimates. We've built in some of these
24 factors that we've seen on this body of work, the ledge

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[WITNESS PANEL: Rosen ~ Finneral]

1 removal, amounts we'd be paying in sheathing, and extra
2 excavations, and other field conditions that we've kind
3 of applied to the estimates up front. We've also
4 applied the loadings in a little different fashion.
5 We've applied them to the corresponding cost categories
6 that are built into the estimate; meaning, materials,
7 contracted labor portions and union labor portions.
8 So, we think we've tightened up the estimates
9 considerably. It is underground construction. We
10 don't have any, you know, a radar that shows us
11 everything that's under there. But our intent is to
12 keep improving on it.

13 Q. On the charges that have been imposed for road
14 degradation, the two different ways that you've seen
15 those imposed in New Hampshire, is the experience in
16 Massachusetts worth considering for New Hampshire, to
17 look at some standard that would be imposed across the
18 board, so that you're not hit with every community one
19 by one and setting its own numbers and forcing you to
20 have to litigate each time?

21 A. (Finneral) It would certainly benefit us. You know,
22 every municipality has their own individual budgets.
23 They would like things a certain way. At least the one
24 that was passed in Massachusetts, it was a

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[WITNESS PANEL: Rosen ~ Finneral]

1 collaboration between all public utilities and the
2 Department, to kind of set a standard that really makes
3 sense. You know, it wasn't just willy-nilly put
4 together. And, it puts all the public utilities on the
5 same playing field. It sets the same standard. So,
6 whether we're working in one municipality as opposed to
7 the other, these are the standards that we abide by.

8 Q. Do you know if any discussions are taking place within
9 this Commission, and I honestly don't know, this isn't
10 a trick question, to look at those kinds of charges on
11 a statewide basis or utility-wide basis?

12 A. (Finneral) I do not know the answer to that question.

13 CMSR. IGNATIUS: Perhaps Staff later
14 could comment on that, if they are aware of any
15 discussion. I don't know if Staff is planning on
16 testifying today? Great. Then, we can pursue it. Thank
17 you. I have nothing else.

18 CHAIRMAN GETZ: Mr. Camerino, if we
19 could just, for the sake of completing the record, we'll
20 reserve Exhibit 3, I'd be interested in the Massachusetts
21 court decision on whatever the comparable road degradation
22 fee is.

23 And, I guess, Mr. Finneral, were you
24 indicating that there's been -- is there a document, a

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[WITNESS PANEL: Rosen ~ Finneral]

1 rulemaking, or something out of the Mass. DPU on this
2 issue?

3 WITNESS FINNERAL: They set forth a
4 standard restoration policy for public utilities.

5 CHAIRMAN GETZ: Okay. And, if we could
6 get a copy of that also as part of the same exhibit
7 number.

8 MR. CAMERINO: Yes.

9 (Exhibit 3 reserved)

10 CHAIRMAN GETZ: Okay. Do you have any
11 redirect?

12 MR. CAMERINO: No, I do not.

13 CHAIRMAN GETZ: Okay. All right. Thank
14 you. You're excused.

15 WITNESS FINNERAL: Thank you.

16 MR. FOSSUM: Just one question regarding
17 Exhibit 3, in light of some internal discussions happening
18 here. I just wanted to clarify when the Commission would
19 like to have that exhibit, and would they like that soon
20 enough to consider it as part of this docket,
21 understanding that the rates here or the proposed rates
22 here would be for effect on July 1, so whatever order the
23 Commission might make would need to be before that?

24 CHAIRMAN GETZ: Well, I'm assuming that

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[WITNESS: Knepper]

1 this is something that could be done within a day or two?

2 MR. CAMERINO: Yes. And, if not today,
3 certainly on Monday. I know the Massachusetts case is at
4 the top of mind for everyone who is involved in the
5 current litigation. And, so, I'm sure I can get that.
6 And, I would think, I'll ask Mr. Finneral, but I'm
7 assuming that that DTE/DPU standard is readily available
8 as well?

9 WITNESS FINNERAL: It's readily
10 available, yes.

11 MR. CAMERINO: So, Monday I think we can
12 get it.

13 CHAIRMAN GETZ: Okay. Thank you.

14 MR. FOSSUM: Thank you. And, we would
15 call Randall Knepper to the stand. (CH)

16 (Whereupon Randall Knepper was duly
17 sworn and cautioned by the Court
18 Reporter.)

19 RANDALL KNEPPER, SWORN

20 DIRECT EXAMINATION

21 BY MR. FOSSUM:

22 Q. Good morning. Could you just state your name and place
23 of employment and your business address for the record
24 please.

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[WITNESS: Knepper]

1 A. My name is Randall Knepper. I work for the Public
2 Utilities Commission Staff. I'm the Director of
3 Safety. And, I work here at 21 South Fruit Street.

4 Q. Thank you. With regard to the CIBS Program, could you
5 just very briefly explain the program as you understand
6 it.

7 A. Yes. The Cast Iron/Bare Steel Program, we're in our
8 second year of this program, 2008 was the first. And,
9 we had a hearing like this to kind of go over the costs
10 and some of the bumps in the road last year at this
11 time. So, in 2009, we experienced our second year, and
12 this is the reconciliation of what happened. And, so,
13 it's a very customized process that is applied to New
14 Hampshire. It's different than National Grid's
15 standard policy that they use in their other states.
16 And, we look at each project individually and give it a
17 pretty good microscope. We do certain things that are
18 very different. And, what the result of it is is that
19 we get probably pipes that are being replaced at an
20 accelerated rate that would not normally be replaced.

21 So, these leak-prone pipes, we had a
22 concern back in the original docket in the merger, and
23 had a settlement done to kind of create a customized
24 approach. Staff is very involved. The Company comes

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[WITNESS: Knepper]

1 forth with some recommendations, we sit down with them,
2 we look at them. We also monitor them out in the
3 field. And, then, we also look at some of the costs
4 afterwards to make sure that this money is being
5 appropriately spent.

6 Q. And, as you understand it, what's the overall intent of
7 the program?

8 A. Well, the Cast Iron/Bare Steel Replacement Program is
9 to look at those sections of your mains, of your system
10 that are made of cast iron or bare steel, because
11 they're more worn, I guess. They're older, they're
12 aged, and they're more prone to leaks and breakages.
13 And, when we have leaks, an increase of leaks and
14 breakages, you have an increase of safety hazards
15 associated with those.

16 Q. And, do you understand that or is it your understanding
17 that this program would continue until all cast iron
18 and bare steel pipes have been replaced?

19 A. No. Our intent is not to replace every section of cast
20 iron or every section of bare steel. That's not the
21 intent of the program. The intent is to get those
22 worst sections, try to identify those that have the
23 highest risks, I guess, to the public and replace those
24 before they become a problem. So, we tend to be a

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1 little bit more proactive in this state, versus
2 reactive. And, we want to get them before we have to
3 have leaks out in the field, which are very expensive
4 to replace in the middle of the winter and evacuate a
5 lot of people and have possible problems.

6 So, of the 100 plus miles, I think we
7 have about 135 miles left, I would not say that we're
8 going to exhaust this program until all 135 miles are
9 gone. That's not what we're trying to do. What we're
10 trying to do is to stabilize the rates of leaks over
11 time so that that leakage rate isn't increasing. So,
12 we make investments to the point where it's either
13 stabilized and leveling off or even declining, then we
14 feel that we have kind of caught up with the amount of
15 capital that would be in the best interest of the
16 consumers.

17 Q. Now, do you believe that there are parts of the program
18 that are functioning as they were intended? That
19 they're functioning properly?

20 A. Yes. I mean, I think the overall program, you know, we
21 are getting more, some of the worst pipe out of the
22 ground sooner than otherwise. This here is an example
23 of one that occurred in 2009, Blossom Street. You can
24 see the pipe actually has holes in it. That normally

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1 would not have risen to the risk level of National Grid
2 replacing it. Okay? I think it doesn't take much to
3 understand, nobody wants to have that in front of their
4 house.

5 So, the total amount has increased
6 substantially, that acceleration, that rate, has
7 increased from, you know, prior to putting this program
8 in place. So, I think that's a benefit. Another
9 benefit is, we're getting bare steel services at the
10 same time. Those services that are typically attached
11 to cast iron mains are getting replaced. And, I think
12 Mr. Finneral mentioned that there was approximately 300
13 -- 330, I think you said, that got replaced in 2009,
14 and that's a benefit. So, those are benefits.

15 I think we have asked parts of it, is
16 like we asked them to cut it out, so we can actually
17 physically see it, catalog it, photograph it, take
18 measurements of what the corrosion rates are or the
19 degradation of the pipe. We get a real good feedback
20 loop. We think that's important. Because that
21 feedback loop, regardless of what all the analysis says
22 and all the projections, gives us an idea, "Are we
23 going too fast?" "Are we going too slow?" Because
24 that's the key is, you know, you don't want to

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1 overspend and you don't want to underspend. So, we
2 think that's starting to go well. That's improved this
3 year from last year, where some of the sampling and
4 testing wasn't coming in on time to be able to make
5 those recommendations for the future. Those are all
6 positive things that have come out of it.

7 Q. Now, those are the positive things. Do you also have
8 concerns about the program as its been conducted?

9 A. Yeah, I do. I think some of my concerns are some of
10 the things that have already been discussed. What is a
11 large concern to the Staff is these cost overruns. You
12 know, some of these projects, prior to it coming to the
13 Staff for review, you should know whether that street
14 is closed, there's a moratorium, whether it's going to
15 be paved or not. Those projects shouldn't even be
16 coming to us. It shouldn't come as a surprise. That's
17 one concern.

18 Another concern I have is, even every
19 project seems to be a large cost overrun last year on
20 these things, and the variances are large. That's very
21 difficult. So, when we make estimates in mind, we kind
22 of need to know and have a good, solid feel of what
23 those costs are going to be and what those rate impacts
24 are to customers. That's kind of in the back of the

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1 mind when you're looking at these things. And, then,
2 when we have, you know, a million dollars more than
3 what was expected, that's kind of going to go into our
4 minds in the next year and say "well, you know, you say
5 it's going to be 2 million, it's actually going to be
6 3. Are we going to get less projects done?" And, put
7 that into the mindset. So, the ability to manage it I
8 think is -- I want to make sure that we pay close
9 attention to it and focused.

10 Another concern I have is I do have a
11 concern about these municipal fees that are starting to
12 be attached. They're not applicable to the 2009
13 discussion we're having now, but they are going
14 forward. That is a concern because, again, I think
15 we're not going to be able to remove as much of this
16 leak-prone pipe if we have a lot of extra costs that
17 are being applied to it.

18 And, then, the third, the third thing I
19 think that has come to, and we touched upon it before,
20 is Staff has a concern that we think we want to alter
21 the -- one of the base conditions that we agreed to up
22 front was that they could upsize a pipe as they were
23 replacing it and put into the next largest category.
24 We think that is adding extra costs or cost creep to

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[WITNESS: Knepper]

1 this program, and we're reviewing that with the Company
2 now. We believe that the low pressure systems, this
3 cast iron/bare steel, is typically in four towns in New
4 Hampshire. So, out of 30, you know, it's just in
5 Concord, Nashua, Manchester, and there's some up in
6 Tilton. There's a couple little spillovers that might,
7 you know, 40 feet, goes over the Bow line or something
8 like that. But, basically, those are the primary
9 cities and streets. So, it's not like you have to deal
10 with 30 towns. So, we also feel that those areas of
11 the system are not really growing. They're pretty much
12 already built out. So, we're not really sure about the
13 upsizing and the need for it. So, we have some
14 concerns about that.

15 Q. Now, given your concerns about the upsizing
16 specifically, did you have any specific changes that
17 you might like to see to the program in that regard?

18 A. Well, originally, we had, you know, agreed, if they
19 take out, let's say, a 2-inch pipe, they could go with
20 a 4; if they take out a 6, they could go with an 8.
21 We're now thinking that maybe like in-kind replacement
22 might be the appropriate way to go. So, if you take
23 out a 4-inch, you replace it with a 4-inch. With the
24 exception of 3-inch diameter pipes, because 3-inch

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1 diameter is now no longer a standard size, as well as
2 2-inch diameter, we don't have a problem. Where it
3 gets expensive is when you take out 6 to 8 or go from 4
4 to 6, we've seen some increases of costs, and we just
5 wonder if that could be closer reviewed, closer looked
6 at, and, you know, really justify it as to "is it
7 really necessary?" So, we're trying to do our best to
8 kind of keep this cost containment in place, because we
9 think it's a valuable program and having to look at it.

10 Q. Now, Mr. Finneral indicated that the Company and Staff
11 have begun talking about possible revisions. And, is
12 that something that you expect would be done soon, to
13 take into account projects that may be underway in the
14 current -- or, not underway, but to be undertaken in
15 this current construction season?

16 A. Well, while we're reconciling this docket for 2009,
17 right now the 2010 program is underway. And, so, if we
18 have some of these cost overruns and they happen
19 another year, I'd like to address them sooner than
20 later. I'd like to address them right now in this
21 construction season, especially if some of the cities
22 and towns have put some brakes, I guess, on their
23 ability to have permits and start those projects. So,
24 we've had our first discussion of that this week. And,

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1 I assume we're going to have some more. You know, one
2 of the -- one of the things that we could look at is
3 to, you know, just like we have with other things, we
4 may just exclude that cost out of the CIBS. If the
5 Company wants to go ahead and still increase the size
6 of the main, you know, that we would just exclude it as
7 being part of the CIBS, although I think they may
8 recover that later on when they do their rate cases.

9 Q. Now, the Company's filing in Exhibit 1 indicates that
10 they had met with Staff some time ago to compare the
11 results of the estimates and the actuals. And, did you
12 participate in that meeting?

13 A. Yes.

14 Q. And, it also states that we didn't remove any costs or
15 Staff didn't remove any costs for last year's
16 construction as a result of that meeting. And, is that
17 -- that's correct?

18 A. I did not. You know, as you remember the previous
19 year, you know, there was abandonments we got stripped
20 out, there was inside meters that went to out that got
21 stripped out, coated steel was included, and we
22 stripped out all those costs. Those things did not get
23 -- we did not strip out any of the costs. We did not
24 go and say "the overruns were" -- we did not strip out

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1 any of those costs for this year. But I do have
2 concerns when each and every project has these large
3 variances from what you're estimating. And, I do have
4 concerns when some of these costs, even if you look at
5 the Exhibit, is it 2, the one that's really small? You
6 know, they have even delayed some of the restoration
7 costs into the following year, so that affects the
8 numbers. And, so, we've had some discussions, and I
9 think National Grid has understood what our -- what our
10 issues are.

11 Q. And, so, just to be clear, at this point we're not
12 looking -- Staff is not looking to remove any costs
13 that the Company is seeking to recover in this filing?

14 A. Not in this filing, but I want to get them addressed so
15 that these things don't happen again in the next year,
16 the 2010 season. I still have even some concerns right
17 now to this day as to how overheads are applied. And,
18 you know, it seems like, if you get your paperwork in,
19 you know, you get the low one. And, if you get it
20 towards the end of it and file it later, you're going
21 to get the high one. That just seems to me, that's not
22 good enough to be able to do an estimate. You should
23 know what projects you're going to do for the year. We
24 have an idea of what the footage is. These costs

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1 they're talking about are salaries, pensions, I mean,
2 these are all things that are within the control of the
3 Company. They shouldn't float all that much. And, so,
4 it's very important, when we're trying to determine the
5 size and the scope of the program year-to-year what
6 that impact is. And, so, that's -- that was first and
7 foremost on our mind.

8 I do have a couple things I wanted to
9 comment on, if I can?

10 Q. Sure. Please.

11 A. Some of these overhead rates that they mentioned still
12 in my mind aren't quite -- don't -- it's hard for me to
13 reconcile. Because when they say there's material
14 charges, well, it's all polyethylene, it's all the same
15 material. The only thing that varies is the different
16 diameters. Union labor, there's very little union
17 labor involved in these. These are almost all contract
18 labor. It's all done by the same crews here in New
19 Hampshire. So, I'm hoping that maybe they can come up
20 with some ways where, maybe it fits outside the way
21 they normally handle things, but where we can kind of
22 be able to really pinpoint with some accuracy as to,
23 you know, what these costs are.

24 Even if you look at what the variances

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1 are for, you know, I said I was going to 600 feet, and
2 we ended up doing 675, that dollar per foot has changed
3 dramatically. You know, our variances were anywhere
4 from 111 percent to 5 percent. And all that's
5 different from what we experienced in 2008. So, it's
6 just another -- it's a different set of issues. So,
7 the issues that we got and we brought up in 2008 look
8 like they have been resolved. So, I'm hoping, going
9 forward in 2010, we resolve some of these issues that
10 are kind of appearing in 2009.

11 So, as we go forward, you know, this
12 program gets refined each and every year. And, we hope
13 that, you know, we can work out some of these bumps.

14 MR. FOSSUM: Thank you. I have nothing
15 further.

16 CHAIRMAN GETZ: Okay. Before we give
17 you the opportunity to ask some questions, Mr. Camerino,
18 I'll deal with the physical evidence. I guess my
19 preference, rather than admit the pipe itself.

20 WITNESS KNEPPER: I don't think you --

21 CHAIRMAN GETZ: So, I think, if it's
22 been discussed, see if you have any objection to this, Mr.
23 Camerino, that Staff take a photo, color photo of it, and
24 provide some, you know, dimensions, and I guess some

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[WITNESS: Knepper]

1 authentication or chain of custody on where it came from
2 and how it was acquired.

3 WITNESS KNEPPER: May I comment on that?
4 They do file a report with us, and so that may be the
5 appropriate place to do that. That, you know, it catalogs
6 each one, gives a description as to what was the condition
7 of the bare steel. That gets filed with Staff. They can
8 include it in with this docket, if they want to, and that
9 might be the appropriate way of doing it.

10 CHAIRMAN GETZ: Mr. Camerino, do you
11 have a preference or any objection to doing either or both
12 of those things?

13 MR. CAMERINO: No. And, what I was
14 thinking, I think, if I understand the Chairman's concern
15 is, there is a specific piece of physical evidence that
16 was presented. If the Staff wanted to create some kind of
17 description, you know, a photo, with some verbiage that
18 they just ran past me and submitted it as a reserved
19 exhibit, that would certainly be fine.

20 CHAIRMAN GETZ: Okay.

21 MR. FOSSUM: We'd certainly be willing
22 to do that.

23 CHAIRMAN GETZ: Okay. Let's reserve
24 Exhibit 4 then for dealing with the physical evidence of

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1 the pipe.

2 (Exhibit 4 reserved)

3 CHAIRMAN GETZ: Okay.

4 Cross-examination?

5 CMSR. BELOW: How about another exhibit
6 for that report as well?

7 CHAIRMAN GETZ: Okay. We can -- why
8 don't we just ask this question. Has that already been
9 submitted to Staff like over the last several months? Is
10 that part of the normal process?

11 WITNESS KNEPPER: Yes. Part of the
12 normal process is they give us a report. It doesn't
13 necessarily get filed with the docket, but it easily
14 could.

15 MR. CAMERINO: Either that or just take
16 administrative notice of it. However it's easiest.

17 CHAIRMAN GETZ: Well, why don't we -- we
18 haven't seen it. So, apparently, only Staff has seen it.
19 So, let's reserve Exhibit 5 for that report.

20 (Exhibit 5 reserved)

21 MR. FOSSUM: So, just so I'm clear.
22 You'd like both the report filed, and then a separate
23 document or item relative to that specific piece of pipe.

24 CHAIRMAN GETZ: Correct.

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1 MR. FOSSUM: We will do both.

2 CHAIRMAN GETZ: Mr. Camerino.

3 MR. CAMERINO: Thank you.

4 CROSS-EXAMINATION

5 BY MR. CAMERINO:

6 Q. Mr. Knepper, at the end of your testimony you discussed
7 a number of areas of concern that you have with regard
8 to the CIBS Program. And, I just want to ask you a
9 little bit about those and their status. The concerns
10 that you went through with the Commission, those are
11 concerns that you expressed to the Company during the
12 technical sessions in this case?

13 A. Yes.

14 Q. And, has the Company indicated a willingness to discuss
15 those concerns with you and determine what, if
16 anything, should be done to address them going forward?

17 A. Yes, we did have a meeting. And, I assume we're going
18 to have some subsequent meetings as well.

19 Q. And, at this point, the Company hasn't necessarily
20 indicated that it agrees with the concerns that you've
21 expressed in all regards, has it?

22 A. No.

23 Q. Okay. And, with regard to the overheads, is it your
24 understanding that the way that the overheads are

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1 applied to these projects is consistent with how the
2 Company applies overheads on all projects for New
3 Hampshire and other jurisdictions as well?

4 A. I can't speak for other jurisdictions, Mr. Camerino.
5 My assumption would be, and I don't know precisely, the
6 way that they apply them for the Cast Iron/Bare Steel
7 Program is probably how they apply them for all other
8 pipe replacement programs that are outside the Cast
9 Iron/Bare Steel as well, you know, the growth projects
10 or those type of things.

11 Q. And, if I understand correctly, your concern is the
12 variability of those overheads as applied to the CIBS
13 Program, not whether they properly reflect what the
14 Company's overheads are?

15 A. Yes. My concern is for the Cast Iron/Bare Steel,
16 because that's what this program is. We have the
17 specific data for the cast iron/bare steel. We know
18 what's there. We know the sizes, the footages. We
19 actually see them. So, we have a lot more ability to
20 look at that small subset. It would be hard for me to
21 say that it's necessarily applicable to the larger set
22 and universal. So, we just are focusing on the CIBS.

23 Q. But you're not familiar, are you, with whatever
24 accounting requirements or processes may lead to the

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1 companies using this particular methodology for
2 allocating its overheads, are you?

3 A. No.

4 Q. Okay. And, in fact, I think you said that what you're
5 proposing may require the Company to do something
6 outside the way they normally would handle things. Is
7 that correct?

8 A. That could be one of the solutions.

9 Q. And, so, is it fair to say, and I don't want to put
10 words in your mouth, I just want to understand the
11 nature of your concern, that, if the Company has
12 accounting needs that cause it to allocate overheads in
13 this varying manner that was described by Mr. Finneral,
14 what you want to look at is, in order to address the
15 needs for the CIBS Program, is there a way to do
16 something different for purposes of that program?

17 A. Or to be able to look at it forward, so that they don't
18 come into the actual reconciliation and having the
19 large variances at the end. So that they're -- when
20 they're proposed to us initially, that those things can
21 be worked out so that we don't see the large variances
22 at the end. However that can be accomplished.

23 Q. And, all of these issues are things that the Company
24 and the Staff are trying to resolve on a going forward

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1 basis, is that correct?

2 A. Yes.

3 Q. There is no proposal to make any adjustment to what's
4 being filed in this case, with regard to rates or
5 otherwise, as to the projects that have been completed?

6 A. Right.

7 MR. CAMERINO: That's all I have. Thank
8 you.

9 CHAIRMAN GETZ: Thank you. Commissioner
10 Below.

11 CMSR. BELOW: Yes. Thank you.

12 BY CMSR. BELOW:

13 Q. The piece of pipe that you brought in, is that a 2- or
14 3-inch cast iron or bare steel pipe?

15 A. That's a bare steel 2-inch nominal diameter, excuse me,
16 from Nashua, and 1908.

17 Q. And, the typical minimum size now would be a 4-inch
18 polyethylene replacement pipe?

19 A. Typically, when they take out a 2-inch, they replace it
20 with 4. One of the -- one of the issues that we have
21 with National Grid is they have a replacement policy of
22 6-inch or less on all low pressure diameter mains no
23 matter what size is being -- was there, with some
24 exceptions. So, they have a standard policy, if

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1 they're taking out 2, they would put in 6. And, we're
2 looking to see if we might reverse that rule, as that
3 would be the exception, and the rule would be you kind
4 of replace in kind. Or, if you can justify, you know,
5 going up. You know, I can understand you don't want to
6 put in 3-inch, because it's not a size that's carried
7 anymore by the utilities. So, if you have a 3, you go
8 to 4. Even then, when you go from 3 to 4, there's an
9 increase of flow area, you get an increase of capacity.

10 Q. The typical 4-inch pipe that might be replaced that's a
11 cast or wrought iron or bare steel, is that typically
12 -- is the interior surface of that typically corroded
13 or perhaps sort of spawled from rusting iron or steel?
14 Or what typically is it -- I guess what I'm asking is,
15 is the actual interior diameter and flow capacity, if
16 it's an older 4-inch pipe being replaced, typically the
17 same as or greater than or less than a brand-new 4-inch
18 polyethylene pipe?

19 A. When you go from a cast iron or a steel main and you
20 replace it in kind with the same pipe size in
21 polyethylene, the ID will get smaller. It will keep
22 the outside dimension the same, so that the fittings
23 can all attach to each other. And, because
24 polyethylene has a weaker -- it's not as strong as

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1 steel or cast iron, it has to have a thicker wall,
2 which would reduce the ID. And, I recognize that.
3 And, that's why, when we initially said "well, you can
4 upsize", we were kind of thinking about that. But,
5 looking at what the impact of that is, in terms of
6 costs, we're kind of now saying "well, I understand you
7 have a little reduction in flow area, but, if you're
8 not growing, do you really need it anyways?" And, not
9 only, you know, what's the percentage of your system,
10 which already has plastic that has been replaced in
11 kind, which already has coated steel and some of these
12 things, you know, if you're still connecting to 4-inch
13 on each end, all you've done is, you've put a bigger
14 pipe in between the two or on areas where there's
15 dead-ends and things. And, so, we're looking at that
16 and saying, you know, "we want to revisit that." But
17 there definitely would be a reduction in the flow area.
18 It's around 12 percent, going from 4 to 6 cast iron to
19 -- I'm sorry, 4-inch cast iron to 4-inch polyethylene.

20 Q. And, the flow capacity is typically reduced by about
21 12 percent, irregardless --

22 A. Well, the area.

23 Q. The area.

24 A. The area is. When you start getting into flows, it's

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1 going to depend upon the pressures that are applied to
2 that area. And, so, on a low pressure system, the
3 pressures aren't very high. So, I would say, in the
4 end, another reason why it's not that -- you know, it
5 sounds like there's a lot, 12 percent sounds like it's
6 a lot, but it probably isn't when you look at the low
7 pressures that are applied. "Low pressure" means less
8 than a quarter of a pound.

9 Q. And, so, your point is to perhaps just simply be
10 smarter about this, in terms of, if there's minimal
11 likelihood of an expansion or the demand growing,
12 perhaps, and there's no real plausible need for the
13 increased capacity done to it. But, if the Company
14 were to indicate that there might be an expansion or a
15 need in the future for the larger capacity, then it
16 might make sense to upsize it?

17 A. Yes. And, not just might, let's, you know, have some
18 supporting information that says that there's, you
19 know, there's some area where there's future growth,
20 that there's some possibilities, that kind of thing.

21 CMSR. BELOW: Okay. Thank you.

22 BY CHAIRMAN GETZ:

23 Q. Okay. Mr. Knepper, I want to follow up a little bit on
24 what is now going to be Exhibit 4, which, as I

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1 understand it, is that piece of steel pipe from Blossom
2 Street, in Nashua, is that correct?

3 A. That's correct.

4 Q. And, I think, with respect to that, earlier you said
5 something like "this would not normally have been the
6 type of pipe that would have been replaced", and I want
7 to understand what you're saying there?

8 A. Well, the reason I say that is because, without the
9 customized CIBS Program as a whole for New Hampshire,
10 and you use the routines of what National Grid uses to
11 prioritize pipe replacements, some of these would not
12 be elevated to the level where it would kick into the
13 program.

14 Q. So, let me just stop you there. So, it's that, under
15 the old program, it wouldn't have been identified.

16 A. Right.

17 Q. But, under the new program it is, because it's a
18 combination of, I guess, looking at the vintage of pipe
19 and where leaks are reported, that type of thing?

20 A. Yes. We look at where the number of leaks are, we look
21 at the vintage of pipe, we look at what the pressures
22 are. We kind of going through this thing. And, you
23 know, I do want to say, you know, asking National Grid
24 to pick the exact pipe it's going to replace is almost

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1 -- we're not trying to do that. That would be
2 forecasting capability that I would not expect them to
3 do. So, we kind of go through this iterative process
4 to see if it's -- what the selection criteria is
5 working. And, so, what I like about the program is,
6 when you get an actual physical piece back, it gives
7 you a better understanding if your selection criteria
8 is applicable.

9 Q. But your bottom line with this particular piece of pipe
10 is that -- I think is then suggesting that it's -- the
11 identification of this length of pipe was a success of
12 the new program?

13 A. Yes.

14 CHAIRMAN GETZ: All right. Any
15 redirect, Mr. Fossum?

16 MR. FOSSUM: No.

17 CHAIRMAN GETZ: Anything further for the
18 witness?

19 (Interjection by the court reporter.)

20 CHAIRMAN GETZ: Okay. Let's take a
21 brief recess. Off the record.

22 (Brief off-the-record discussion ensued
23 and a recess was taken at 11:32 a.m. and
24 the hearing reconvened at 11:38 a.m.)

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1 CHAIRMAN GETZ: Commissioner Ignatius.

2 CMSR. IGNATIUS: So much for my attempt
3 to sneak out quietly.

4 BY CMSR. IGNATIUS:

5 Q. I did just -- was curious, Mr. Knepper, if you had a
6 view on -- well, first of all, are you familiar with
7 what the Massachusetts regulators have done in looking
8 at a state standard for I assume it's for road
9 degradation, and maybe it's even broader than that?

10 A. Not in detail.

11 Q. Do you have any thought at this point on whether some
12 sort of state standard across utilities would be
13 something worth considering or not the right direction
14 to head?

15 A. Well, it depends upon, if you're talking about stuff
16 that's just within like the CIBS Program, and stuff
17 that's really within urban downtown environments, like
18 walking downtown Concord down on, you know, Main
19 Street, may not be, you know, applicable to paving
20 restoration that's in Goffstown, type of thing, where
21 you don't have some of those constraints. And, so, I
22 think the variability of the New Hampshire communities,
23 and I can't speak for how they are in Mass., would, if
24 you're trying to do something for all of them, is going

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1 to be quite a challenge. You don't even get agreement
2 between what the paving standards are between the City
3 of Concord and the City of Manchester, let alone the
4 City of Manchester and Nashua. So, there is a
5 variability. And, the smaller communities tend to, if
6 they don't have their own plan, they tend to follow
7 what the State DOT's plans are. So, I think it will be
8 a challenge.

9 CMSR. IGNATIUS: All right. I guess I
10 have no other questions. Thank you. And, I apologize for
11 disrupting the flow of the proceeding here.

12 CHAIRMAN GETZ: Any redirect,
13 Mr. Fossum?

14 MR. FOSSUM: No.

15 CHAIRMAN GETZ: Okay. Then, you're
16 excused. Thank you, Mr. Knepper.

17 WITNESS KNEPPER: Thank you.

18 CHAIRMAN GETZ: Any objection to
19 striking the identifications and admitting the exhibits
20 into evidence?

21 (No verbal response)

22 CHAIRMAN GETZ: Hearing no objection,
23 they will be admitted into evidence. Anything we need to
24 address before we have opportunity for closings?

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1 MR. CAMERINO: I have a few housekeeping
2 items. I can do it when I do my closing or I can do it
3 first, if that would be --

4 CHAIRMAN GETZ: Well, why don't you
5 address it now.

6 MR. CAMERINO: Okay. The first one is I
7 just want to note for the record that, on Exhibit 1, on
8 the numbered -- the schedules at the end, Page 3 of 4, the
9 Commission will note there's a handwritten entry. And,
10 just for the record again, that's not on what was
11 originally submitted to the Commission. That's my
12 handwriting from a tech session, and it was just some
13 clarifying something that the Staff had asked about it,
14 says "includes amortization". So, there's nothing wrong
15 with that entry, I just wanted to note that it's not in
16 what was filed on the 17th.

17 CMSR. IGNATIUS: Well, the copies that
18 you gave us, because I thought they were duplicates, I
19 didn't distribute to the Commissioners. So, they are not
20 seeing what you're talking about. So, we'll get those and
21 look at those.

22 MR. CAMERINO: Okay. I can show you.

23 CHAIRMAN GETZ: Well, is that the only
24 distinction between the one --

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1 MR. CAMERINO: Yes. I just wanted to
2 make it clear that what was filed on May 17th with the
3 Commission has that difference from the exhibit. I've
4 already made more of it than I planned to.

5 Okay. These items are getting bigger,
6 trust me.

7 CHAIRMAN GETZ: Okay. Thank you.

8 MR. CAMERINO: The next one is, I just
9 wanted to also indicate to the Commission, there was some
10 testimony regarding the fact that the Company is not doing
11 any projects in Manchester right now, because of the
12 assessment or the City's attempt to assess those road
13 degradation fees. And, just would indicate, I am familiar
14 with that litigation. And, I just want to assure the
15 Commission that the Company is assessing what options it
16 has going forward, in order to protect itself in terms of
17 the ability to not pay fees that may be illegal, but also
18 recognizing that it would very much not like to have this
19 program come to a halt in the City of Manchester. So, the
20 Company is looking at those options.

21 The third thing is, I just want to
22 indicate that the Company and the Staff have agreed to
23 have me read a joint statement, which is somewhat in the
24 nature of an offer of proof. It relates to an issue that

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1 was in the rate case that we've chosen not to address
2 here. And, I just want to -- but I want the Commission to
3 be aware of it, so I thought I would read that now, if I
4 could. It relates to the issue of deferred taxes:

5 "The Staff and the Company have agreed
6 upon this offer of proof and joint statement of position
7 regarding the treatment of deferred income taxes for
8 purposes of the rate increase being proposed by the
9 Company in this case. In the Company's pending base rate
10 case, DG 10-017, the Company's revenue requirement
11 witnesses discuss in their prefiled testimony a change in
12 the way that the Company has treated certain main repair
13 and replacement costs for tax purposes. In short, the
14 Company has indicated that, in its federal tax return, it
15 has treated certain expenditures that are capitalized for
16 ratemaking purposes as operating expenses for income tax
17 purposes. The result of this tax treatment, which remains
18 subject to audit and possible adjustment by the Internal
19 Revenue Service, would be to reduce the Company's annual
20 net income and, therefore, its income tax burden, as well
21 as to increase the Company's accumulated deferred income
22 tax obligation. As the Commission is aware, an increase
23 in the accumulated deferred income tax obligation has the
24 effect of reducing the Company's rate base and, therefore,

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1 reduces the Company's revenue requirement. The Company
2 does not know at this point whether the treatment of this
3 item in its tax return will be challenged by the IRS. If
4 the IRS were to disallow the Company's tax treatment of
5 this item, the Company would owe additional income tax and
6 its accumulated deferred income tax obligation would
7 decrease and its proposed rate base and revenue
8 requirement would increase accordingly."

9 "The same issue that exists in the
10 Company's base rate case also exists with regard to the
11 rate base additions that are the subject of the Company's
12 CIBS investments and the rate relief being requested in
13 this case (that is, the rate base additions are reduced on
14 a net basis and, therefore, the revenue increase required
15 to support the Company's capital investment for the CIBS
16 Program is reduced commensurately). The Company and Staff
17 expect that the proper mechanism for addressing the
18 possibility that the IRS may disallow the Company's tax
19 treatment of these expenditures will be addressed in its
20 base rate case, and they have agreed that the resolution
21 determined in that case should be applied to the
22 investments and rate relief at issue in this case in the
23 same manner."

24 So, in sum, there is a possibility that,
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1 because of the way the Company has filed its tax returns,
2 that what it is showing for its accumulated deferred
3 income tax could be adjusted down the road. We've raised
4 that issue in the base rate case. And, rather than try to
5 have it resolved as to what would happen if the IRS
6 reversed that treatment, rather than addressing that here,
7 we would address it in the base rate case, and then the
8 same treatment would be applied to CIBS once that was
9 known.

10 CHAIRMAN GETZ: Okay. Thank you.

11 MR. CAMERINO: Thank you. And, that
12 concludes the preliminary matters.

13 CHAIRMAN GETZ: Mr. Fossum.

14 MR. FOSSUM: In closing, I suppose, as a
15 general matter, the Staff has expressed concerns about
16 some aspects of the program, which you've heard testimony
17 about today. Including that mains and pipe sizing may
18 need to be looked at more closely and adjusted. So, we're
19 working with the Company to possibly revise the policy
20 relating to pipe size replacements. And, you've heard
21 testimony about the Company's costs and the rising nature
22 of them relative to cost estimates. Mr. Finneral
23 testified that the Company believes it has improved its
24 cost estimating capabilities, and the Staff hopes to see

1 improvements in the estimates as compared to actual costs
2 going forward. And, we'll address that further, if it
3 needs to be addressed.

4 You've also heard testimony about the
5 significant increase in municipal costs, both on a
6 permitting fee basis and, obviously, for other items, such
7 as pavement restorations. We anticipate that the -- we
8 believe that the Company is doing what it can to control
9 those costs, and would encourage the Company to continue
10 those efforts.

11 As concerns this particular filing,
12 Staff supports the filing as it was submitted by the
13 Company initially, and I guess is sort of reiterated in
14 Exhibit 1. While we have identified some concerns with
15 the past filing, we're not looking to undo anything that
16 has already been done as to this filing. And, we would
17 support the Company's recovery as it's outlined in the
18 filing in this case. Thank you.

19 CHAIRMAN GETZ: Thank you. Mr.
20 Camerino.

21 MR. CAMERINO: Thank you. First, I
22 would say that the Company understands the concerns that
23 have been expressed by Mr. Knepper, and is working closely
24 with him and other members of the Staff to address those

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1 concerns, including where the Company disagrees with them,
2 to explain why it does what it does. And, for that
3 reason, the Company has not presented a witness today to
4 respond to those concerns directly, but rather is seeking
5 to, and believes it will, resolve them one way or another.
6 So that, as the program goes forward, both this year and
7 in the future, those concerns are eliminated.

8 With regard to the filing that was made
9 for cost recovery for this year, the Company believes that
10 all of the expenditures -- all of the expenditures relate
11 to projects that are used and useful and in service today
12 and were prudently incurred. The Company requests that
13 the rate relief that's been submitted be authorized by the
14 Commission.

15 The last issue is with regard to the
16 municipal costs that were discussed by Mr. Finneral, and,
17 in particular, the road degradation fees. That's
18 obviously an issue of considerable concern, and fairly
19 urgent in nature for the Company in many ways, in terms of
20 its ability to carry out the projects and not incur costs
21 that it believes to be illegal that are being assessed by
22 the municipalities. And, the Company very much
23 appreciates the level of interest that the Commission has
24 demonstrated in that, and would welcome any expressions of

1 concern that the Commission might wish to express. And,
2 we'll keep the Commission involved as that matter
3 progresses. Thank you.

4 CHAIRMAN GETZ: Okay. Thank you. Then,
5 we will close this hearing and take the matter under
6 advisement. Thank you.

7 (Whereupon the hearing ended at 11:50
8 a.m.)

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