

## STATE OF NEW HAMPSHIRE

## PUBLIC UTILITIES COMMISSION

June 17, 2011 - 10:10 a.m.  
Concord, New Hampshire

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RE: DG 11-106  
NATIONAL GRID NH:  
Cast Iron/Bare Steel Replacement  
Program Results.

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

Sandy Deno, Clerk

APPEARANCES: Reptg. National Grid NH:  
Thomas P. O'Neill, Esq.  
Megan F. S. Tipper, Esq.

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

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

ORIGINAL

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# PROCEEDING

CHAIRMAN GETZ: Okay. Good morning.

We'll open the hearing in Docket DG 11-106. On May 13, 2011, National Grid filed its report on fiscal year 2011 results for its Cast Iron/Bare Steel Replacement Program. The Company seeks a permanent increase in its base distribution rates of \$521,590, effective for usage on or after July 1, 2011. And, I'll note for the record that the affidavit of publication has been filed.

So, let's take appearances.

MR. O'NEILL: Thomas O'Neill, Senior Counsel, on behalf of EnergyNorth Natural Gas, Inc., doing business as National Grid NH. And, with me today is Megan Tipper.

CHAIRMAN GETZ: Good morning.

MR. SPEIDEL: Good morning,  
Commissioners. Alexander Speidel, together with Randall  
Knepper and Steve Frink for Staff.

CHAIRMAN GETZ: Good morning.

MR. SPEIDEL: Good morning.

CHAIRMAN GETZ: Are you ready to proceed, Mr. O'Neill?

MR. O'NEILL: Yes. The Company would call Thomas Finneral and Mindy Rosen to the stand. Mr.

1 Chairman, while they're settling in, I would just note  
2 that the Company is intending to mark one exhibit, which  
3 was the Company's May 13th, 2011 filing in this case. It  
4 was basically a report with a number of attachments, that  
5 I propose that the entire report, including the  
6 attachments, be marked as a single exhibit. A copy has  
7 been provided to the Clerk.

8 CHAIRMAN GETZ: Okay. We'll mark it for  
9 identification as "Exhibit Number 1".

10 (The document, as described, was  
11 herewith marked as **Exhibit 1** for  
12 identification.)

13 MR. O'NEILL: And, do either of the  
14 Commissioners need a copy?

15 CHAIRMAN GETZ: We're set. Thank you.

16 MR. O'NEILL: Thank you.

17 (Whereupon **Thomas Finneral** and  
18 **Mindy Rosen** were duly sworn and  
19 cautioned by the Court Reporter.)

20 MR. O'NEILL: And, Mr. Chairman, I'll do  
21 some direct examination with the witnesses. And, I do  
22 note that there's no prefiled testimony filed in this  
23 case. So, the direct examination will be a little bit  
24 more than the normal summary fashion, but we will keep it

[WITNESS PANEL: Finneral~Rosen]

1       brief.

2                               CHAIRMAN GETZ:   Thank you.

3                               **THOMAS FINNERAL, SWORN**

4                               **MINDY ROSEN, SWORN**

5                               **DIRECT EXAMINATION**

6       BY MR. O'NEILL:

7       Q.    Mr. Finneral, I'd like to start with you.   Could you  
8               just state your name and business address for the  
9               record.

10      A.    (Finneral) Thomas Finneral, 40 Sylvan Road, Waltham,  
11               Mass.

12      Q.    And, could you just briefly state what your position is  
13               with the Company?

14      A.    (Finneral) Currently, I'm the Contractor Oversight  
15               Manager for Construction.   For this past fiscal year, I  
16               was the Process Manager for Reliability and Integrity  
17               as relates to CIBS.

18      Q.    And, could you just state what your specific  
19               responsibilities as regards to this case is?

20      A.    (Finneral) I manage the execution and tracking of the  
21               Cast Iron/Bare Steel Program for New Hampshire.

22      Q.    And, have you reviewed the Company's May 13th filing in  
23               this case that was marked for identification as  
24               "Exhibit 1"?

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[WITNESS PANEL: Finneral~Rosen]

1 A. (Finneral) Yes.

2 Q. And, to the best of your knowledge and belief, is that  
3 report true and accurate?

4 A. (Finneral) Yes, it is.

5 Q. And, in particular, did you prepare Attachment A to  
6 that report?

7 A. (Finneral) Yes.

8 Q. And, do you have any changes or corrections to  
9 Attachment A that you'd like to present at this time?

10 A. (Finneral) No. No changes.

11 Q. Thank you. Would you just briefly provide a overview  
12 of the Cast Iron/Bare Steel Replacement Program for New  
13 Hampshire.

14 A. (Finneral) Sure. It arose from the Merger Settlement  
15 Agreement between National Grid and EnergyNorth.  
16 Program was designed to ensure the ongoing replacement  
17 of cast iron and bare steel mains and services, as  
18 they're recognized as leak-prone and a higher risk  
19 associated with the older facilities. In the past, the  
20 Company had been doing an ongoing historical level of  
21 around \$500,000 of spending for this replacement, which  
22 is deducted from the program.

23 Q. And, what's the process by which the Company chooses  
24 which mains to replace?

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[WITNESS PANEL: Finneral~Rosen]

1 A. (Finneral) Our system integrity engineers, they will  
2 analyze every segment of cast iron/bare steel mains in  
3 the State of New Hampshire. They'll run it through an  
4 algorithm looking for the riskiest pipe. They'll  
5 generate a list of projects from that, and we'll sit  
6 down with Staff and review those projects.

7 Q. And, could you just provide an overview for the  
8 Commission of the projects that were agreed upon for  
9 the 2010 construction season?

10 A. (Finneral) Sure. Originally, there were 15 projects  
11 agreed upon with Staff. Out of the 15 projects, one of  
12 them actually got deferred. And, we moved in another  
13 project to take its place, due to some municipal paving  
14 that was taking place, and we wanted to coordinate with  
15 the City of Manchester. And, then, we had an  
16 additional project walk in late in the season in the  
17 November time frame, due to field conditions. We had a  
18 -- we had an issue with a section of main in the Nashua  
19 territory, that we had a walk-in. So, out of the 15  
20 projects that we proposed, we ended up installing 16  
21 projects.

22 Q. And, those 16 projects are the projects that are  
23 identified on Attachment A to Exhibit 1?

24 A. (Finneral) Correct.

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[WITNESS PANEL: Finneral~Rosen]

1 Q. And, could you just briefly compare the actual, what  
2 was actually done during the construction season, to  
3 what was estimated going into the construction season?

4 A. (Finneral) Sure. We had estimated approximately 2.7 --  
5 2.79 miles of replacement at an estimated cost of 4.1  
6 -- \$4,106,680. As compared to what we actually  
7 installed in fiscal '11, we actually installed  
8 2.8 miles, at a final construction cost of \$4,059,700.

9 Q. So, the actual mileage and costs of the program were  
10 pretty close to what was estimated, is that correct?

11 A. (Finneral) Correct. They were very close.

12 Q. But there were individual variances within projects in  
13 the program, is that also correct?

14 A. (Finneral) That is correct.

15 Q. And, the explanation of variations between estimated  
16 and construction costs -- and actual construction costs  
17 by project, are those detailed in Attachment A?

18 A. (Finneral) Correct. They're in the second column of  
19 Attachment A.

20 Q. Thank you. Briefly, the costs that are allocated to  
21 the Cast Iron/Bare Steel Program, they include both  
22 direct costs and overhead costs, is that correct?

23 A. (Finneral) They do.

24 Q. Okay. And, did you have an opportunity at any point to

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[WITNESS PANEL: Finneral~Rosen]

1 take a look at the -- compare the total capital  
2 spending in New Hampshire to the capital spending  
3 associated with the Cast Iron/Bare Steel Program?

4 A. (Finneral) Yes, we did.

5 Q. And, could you tell me what percentage of total  
6 spending in New Hampshire compares to cast iron/bare  
7 steel?

8 A. (Finneral) In fiscal year '11, the total capital  
9 expenditures for the CIBS Program represents about 27  
10 percent of the overall total capital expenditure spent  
11 in New Hampshire.

12 Q. I'm sorry?

13 A. (Finneral) Twenty-seven percent.

14 Q. Twenty-seven percent. And, did you have an opportunity  
15 to also look at what percentage of the overhead  
16 allocated to National Grid New Hampshire, how that  
17 compared as to the percentage breakdown between cast  
18 iron/bare steel and total spent?

19 A. (Finneral) Yes, we did. The breakdown came up to  
20 around 29 percent. The 29 percent of the overheads  
21 were applied to the CIBS Program.

22 Q. Thank you. Ms. Rosen, I'll turn to you at this point.  
23 Could you just state your name and address for the  
24 record please.

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[WITNESS PANEL: Finneral~Rosen]

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

3 Q. And, could you just state your position with the  
4 Company.

5 A. (Rosen) I'm the Lead Financial Analyst for National  
6 Grid U.S.A. Service Company.

7 Q. And, have you had a chance to review the Company's May  
8 13th filing in this case?

9 A. (Rosen) Yes.

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

12 A. (Rosen) Yes.

13 Q. And, did you prepare any particular portions of that  
14 report?

15 A. (Rosen) Yes. I prepared Attachment B and Attachment C.

16 Q. Do you have any changes or corrections that you need to  
17 make to those attachments to the report at this time?

18 A. (Rosen) No.

19 Q. Could you briefly describe what your responsibilities,  
20 beyond just preparing Attachment B and C, your specific  
21 responsibilities with respect to this case?

22 A. (Rosen) My responsibilities are to prepare the revenue  
23 requirement for the filing in the Cast Iron/Bare Steel  
24 Program, under the supervision of the Director of Gas

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1 Operations and Revenue Pricing.

2 Q. And, could you just provide an overview of the total  
3 capital dollars that are being recovered through the  
4 rate that the Company is proposing in this proceeding?

5 A. (Rosen) Yes. As you can see, on Page one of Attachment  
6 B, the total spending for mains and services for the  
7 year was \$4,059,700. That follows from Attachment A.  
8 From that amount, we've deducted \$500,000, which is the  
9 base spending. So that we started with a cumulative --  
10 with a spending amount of \$3,500,059 -- excuse me --  
11 \$3,559,700. We take that amount, and it's added to the  
12 rate base from 2010, for a cumulative rate base amount  
13 of \$7,926,140. We make some deductions for the  
14 accumulated depreciation year-to-date of \$279,129, and  
15 for the deferred tax reserve of \$3,099,739, for a  
16 year-end rate base of \$4,548,272.

17 That rate base gets a return on it at  
18 the weighted average cost of capital of 11.63 percent.  
19 That weighted average cost of capital was agreed to in  
20 docket 10-017, in the rate case that recently was  
21 filed. Gives us a return of \$528,964. To that, we add  
22 the depreciation of \$278,129, and property taxes of  
23 \$194,259. Gives us a cumulative program amount of  
24 \$1,001,352.

[WITNESS PANEL: Finneral~Rosen]

1                   From that amount, we subtract last  
2                   year's revenue requirement, which is already in base  
3                   rates, since this is a cumulative amount. So, we're  
4                   subtracting \$479,762. And, that gives us the annual  
5                   incremental revenue requirement of 521,000 -- excuse  
6                   me, \$521,590.

7   Q.   Thank you. And, could you just give us a status of  
8           what the change in the revenue requirement is in terms  
9           of bill impacts for an average residential customer?

10   A.   (Rosen) Yes. If you look at Page 4 of 4 on Attachment  
11           B, it shows that the average annual increase for a  
12           residential heating customer is \$4.22 per year, which  
13           works out to about 35 cents a month.

14   Q.   And, Ms. Rosen, are you familiar with the status of  
15           pending litigation that the Company has with the towns  
16           of Concord and Manchester?

17   A.   (Rosen) Yes, I am.

18   Q.   And, are you aware that that litigation generally  
19           reflects an increase in paving -- in permit fees?

20   A.   (Rosen) Yes.

21   Q.   And, are those increased fees, being charged by Concord  
22           and Manchester, are they included in the revenue  
23           requirement that was calculated for purposes of this  
24           rate case?

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[WITNESS PANEL: Finneral~Rosen]

1 A. (Rosen) Yes, they are.

2 Q. Are you aware of what the status of those two  
3 litigation cases is at this time?

4 A. (Rosen) We are currently -- we currently have pending  
5 litigation on that. Mr. Finneral, will you speak to  
6 the pending litigation?

7 A. (Finneral) Again, we have pending litigation. We're  
8 awaiting hearing dates, I believe, for both  
9 municipalities.

10 Q. And, Ms. Rosen, are you aware of any litigation costs  
11 that the Company has incurred in respect to those  
12 cases?

13 A. (Rosen) Yes, there have been litigation costs.

14 Q. Do you know how much those litigation costs have been  
15 to date?

16 A. (Rosen) To date, those litigation costs are 122,000 --  
17 \$122,213.73.

18 Q. And, are those litigation costs by the Company, are  
19 those included as part of the rate recovery request in  
20 this case?

21 A. (Rosen) No, they are not.

22 Q. And, do you know if the Company has any intention to  
23 seek recovery of those cases in the future?

24 A. (Rosen) The Company reserves the right to seek recovery

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[WITNESS PANEL: Finneral~Rosen]

1 of those fees in the future.

2 Q. But, at this time, there's no mechanism in place for  
3 the Company to seek recovery, is that correct?

4 A. (Rosen) That's correct.

5 MR. O'NEILL: Thank you. I have no  
6 further questions for these witnesses. They're available  
7 for cross-examination.

8 CHAIRMAN GETZ: Thank you. Mr. Speidel.

9 MR. SPEIDEL: Yes. Thank you,  
10 Commissioner. I will ask a few questions. And, I'll  
11 address them to the panel at large, and whoever feels  
12 qualified to answer can.

13 **CROSS-EXAMINATION**

14 BY MR. SPEIDEL:

15 Q. I think I would like to draw your attention to  
16 Attachment A to the filing, which is marked as "Exhibit  
17 1". And, there's a few accounting columns and items  
18 that we'd like to have additional explanation for. The  
19 first would be, if you could please look on the first  
20 page of Attachment A, and the first -- the 13th column,  
21 it reads "Degradation Fees (Accrued)". And, it  
22 continues for several of these projects, not all of  
23 them.

24 A. (Finneral) Yes.

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[WITNESS PANEL: Finneral~Rosen]

1 Q. Could you provide a little bit of additional  
2 explanation as to what this column refers to?

3 A. (Finneral) Sure. Those are the Manchester fees. Those  
4 are the degradation fees that the cities have imposed  
5 that we have the pending litigation against. We have  
6 not paid them, but we've accrued the dollars. We've  
7 received invoices for them, so we've accrued the  
8 dollars.

9 Q. So, have these accrued dollars been somehow applied to  
10 the actual cost lines or no?

11 A. (Finneral) Yes, they have.

12 Q. They have been?

13 A. (Finneral) Yes.

14 Q. And, likewise, the third column from the left, you have  
15 just a general "Comments" column. And, for certain  
16 Concord projects, there are lines that read something  
17 to the effect of "X dollars in degradation fee paid  
18 under protest", while, for certain of the Manchester  
19 projects, you have "X dollars in degradation fee on  
20 hold"?

21 A. (Finneral) Correct.

22 Q. Could you provide a little bit more explanation about  
23 the differences between "under protest" and "on hold"?

24 A. (Finneral) Sure. We are physically paying the

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[WITNESS PANEL: Finneral~Rosen]

1 Manchester fees. We need to do that to actually  
2 perform the work. We are not paying fees for  
3 Manchester. And, again, we're awaiting pending  
4 litigation.

5 Q. Okay.

6 CMSR. IGNATIUS: Can I ask, that sounds  
7 backwards from what you said a moment ago?

8 WITNESS FINNERAL: We are paying the  
9 fees in Concord; we're not paying the fees in Manchester.  
10 I apologize.

11 MR. SPEIDEL: Thank you.

12 WITNESS FINNERAL: Thank you.

13 BY MR. SPEIDEL:

14 Q. There's a column here, at the very end of the  
15 spreadsheet, that would be on Page 2 of Attachment A,  
16 that reads "Original Replacement Comments". There are  
17 certain technical details that are presented here.  
18 Could you provide a little bit more background along  
19 the lines of do these comments provide the primary  
20 explanation for why this certain length of pipe in a  
21 given location was replaced?

22 A. (Finneral) Yes, they do. These comments were actually  
23 submitted previously for the proposed program. These  
24 are the comments that justify the replacement of the

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[WITNESS PANEL: Finneral~Rosen]

1 facilities.

2 MR. SPEIDEL: Thank you. We -- thank  
3 you very much. I have no further questions for these  
4 witnesses.

5 BY CMSR. IGNATIUS:

6 Q. Just I guess a little bit more on the litigation. What  
7 mechanism do you have, once the cases are resolved, if  
8 it goes in your favor or if it goes against you, how  
9 does that get all kind of worked back?

10 A. (Rosen) With the fees themselves and correcting the  
11 accounting, is that the question?

12 Q. Yes.

13 A. (Rosen) What would happen is, if we were successful in  
14 the case, we would then reverse the accrual that we had  
15 made or we would be getting a refund back, where we  
16 have actually paid funds, which would reduce the cost  
17 that would go into next year's CIBS Program. And, that  
18 would reduce the revenue requirement.

19 CMSR. IGNATIUS: Thank you.

20 CHAIRMAN GETZ: Anything further,  
21 Mr. O'Neill?

22 MR. O'NEILL: I have nothing further at  
23 this time.

24 CHAIRMAN GETZ: Okay. Then, the

[WITNESS PANEL: Finneral~Rosen]

witnesses are excused. Thank you.

WITNESS FINNERAL: Thank you.

CHAIRMAN GETZ: Mr. Speidel, is there going to be a witness on behalf of Staff?

MR. SPEIDEL: Yes. I would like to call Randall Knepper of Staff to the stand.

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

**RANDALL KNEPPER, SWORN**

**DIRECT EXAMINATION**

BY MR. SPEIDEL:

Q. Would you please state your name, place of employment, and also your business address.

A. My name is Randy Knepper. I am a Staff member of the New Hampshire Public Utilities Commission, here at 21 South Fruit Street, in Concord. And, my responsibilities are to direct the Safety Division.

Q. Thank you. Mr. Knepper, if I could please draw your attention to Attachment A yet again. In particular, there is a project that has a work order code of "429634". That is at 59-85 Broadway, here in Concord. And, there's an indication here that the average cost per foot for the replacement of this specific length of

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[WITNESS: Knepper]

1 pipe, based on actuals, was \$405. And, there are quite  
2 a number of other projects listed within this summary  
3 spreadsheet that have actual costs per foot totals  
4 exceeding \$300. You have quite a bit of hands-on  
5 experience with similar projects and also inspection  
6 experience with similar projects throughout the state.  
7 With regards to this Broadway project, is there a  
8 specific feature that you thought unusual, in terms of  
9 how the main was replaced?

10 A. There's -- I believe that there's a mistake on this,  
11 the column that lists that the relay diameter was  
12 6-inch, the existing diameter was 6-inch. Our  
13 inspections in the field results showed that there were  
14 6-inch cast iron and 8-inch diameter polyethylene was  
15 installed, not 6-inch. We had originally asked the  
16 Company about, you know, trying last year to replace  
17 like in kind, in the same size, but this one I believe  
18 went up in size.

19 Q. Would you know of any ordinary course engineering  
20 reasons for using a larger diameter pipe as a  
21 replacement or, in general terms, what are your  
22 thoughts about that?

23 A. Well, in general, sometimes it's justified. I would  
24 say, in this case, it's not. And, I say that because

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[WITNESS: Knepper]

1 we already had talked with the Company, and they had  
2 submitted paperwork to us earlier and said it was going  
3 to be 6-inch. And, we were a little surprised to find  
4 out that it was 8.

5 Q. Did the Company state any reasons for why they used a  
6 larger diameter of pipe?

7 A. I believe it was just an oversight.

8 Q. Thank you. In general, in view of these average cost  
9 per foot figures presented in this spreadsheet known as  
10 "Attachment A", how do the Company's cost per foot  
11 averages compare with its peers in the region at large  
12 and also in New Hampshire, if you happen to know that?

13 A. Well, there's a couple ways to answer that, I guess.  
14 From our perspective, when we look at these numbers,  
15 within the Cast Iron/Bare Steel Program, because it has  
16 a lot of detailed data that comes with it, exact  
17 footages, location, size, pressures, age, material that  
18 we have, we get a lot of detail on that. But, compared  
19 to some of the other people that are doing some cast  
20 iron or bare steel replacement programs, when I say  
21 "other people", I mean other companies within New  
22 Hampshire, these costs are considerably higher.

23 Q. Thank you. And, also, given your knowledge of the  
24 Company's Cast Iron/Bare Steel Program, would you be

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[WITNESS: Knepper]

1       able to give some insight regarding the escalation in  
2       costs in recent years for the program?

3       A.   Well, this is the third year in doing a reconciliation.  
4       They're in their fourth year of actually -- they have  
5       just started the fourth year, doing work for this year.  
6       So, each year, between what was estimated at the  
7       beginning of doing the selection process and to what  
8       was actually has shown increases.  The first year, I  
9       think the estimates were \$130 a foot, and the actuals  
10      came in at \$183 a foot.  And, that's based on what was  
11      submitted and put in previous dockets.  The second  
12      year, I think the estimate was \$195 a foot, and the  
13      actuals came in at \$238 a foot.  And, the third, this  
14      is the third year, and I believe, if you look in the  
15      column here that says "average costs", right after the  
16      16th project down there, it says "\$272 per foot".  It's  
17      in bold, it says "average cost per foot".  So, the  
18      costs per foot are steadily increasing each year, and  
19      significantly.

20                   So, we're -- our challenge, as a Safety  
21      Division is, is the estimates are not only increasing  
22      each year, but the actuals are increasing beyond the  
23      estimates.  This year, it looked like the estimate and  
24      the actual was close for this third year.  So -- but,

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[WITNESS: Knepper]

1           nonetheless, the actuals are increasing per foot  
2           significantly. You know, to go from \$183 a foot to  
3           \$272 a foot in a two, three year span is quite a bit.

4   Q.   Thank you. In general terms, could you briefly  
5       describe the safety benefits that do result from the  
6       Cast Iron/Bare Steel Program, in your view, for gas  
7       customers of the Company and the public at large?

8   A.   Well, the purpose of this program is to have an  
9       accelerated replacement program for pipe that may not  
10      otherwise have been replaced. We believe this cast  
11      iron and bare steel represents the riskiest pipe within  
12      their systems. That are more prone to leaks and  
13      breakages, joint leakages, and corrosion in general,  
14      which I think lead to safety hazards. So, the purpose  
15      of the Cast Iron/Bare Steel Program was to have a  
16      customized approach applicable to the New Hampshire  
17      distribution systems and trying to get some of that  
18      worst or most leak-prone pipe replaced earlier, at a  
19      balance between what's affordable for ratepayers.

20                   MR. SPEIDEL: Thank you. I have no  
21   further questions.

22                   CHAIRMAN GETZ: Mr. O'Neill.

23                   MR. O'NEILL: Yes, just a couple of  
24   questions.

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[WITNESS: Knepper]

**CROSS-EXAMINATION**

1  
2 BY MR. O'NEILL:

3 Q. Mr. Knepper, I understand that -- your expression of  
4 concern over the rising costs of the program. And, I  
5 just wanted to clarify. As part of that Cast Iron/Bare  
6 Steel Program, there's a requirement that the Company  
7 and the Staff meet periodically to discuss the program  
8 throughout the year, is that correct?

9 A. That's correct.

10 Q. And, is it fair to say that during those meetings cost  
11 control and the reasons for increasing costs and what  
12 can be done about those costs are part of the  
13 discussions?

14 A. Yes. I think it's fair to say I let the Company know  
15 these concerns during those meetings.

16 Q. Thank you. And, despite your expression of concern  
17 over these companies, I just also want to clarify that  
18 at this point in time you're not recommending any  
19 disallowances as a result of those concerns with  
20 respect to this specific case, is that correct?

21 A. I would say that's correct, because I don't think I can  
22 really get a handle as to, you know, anything that is  
23 disallowable.

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

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1 further questions at this time.

2 CMSR. BELOW: Thank you.

3 BY CMSR. BELOW:

4 Q. To follow up on that point, you pointing out that the  
5 Broadway project is one where the Company put in an  
6 8-inch diameter pipe to replace a 6-inch diameter pipe.  
7 And, I think you suggested that was against your  
8 recommendation or against what the Commission had  
9 indicated previously, that, unless there was a good  
10 reason, it should be replaced in the same diameter, is  
11 that correct?

12 A. That's correct.

13 Q. And, is it true that, looking at the second page of  
14 Attachment A, that Broadway appears to be one of only  
15 three projects that had an existing diameter of  
16 6 inches? The two others being ones that had partial,  
17 a mixture of 4 and 6-inch.

18 A. I have to look.

19 Q. Okay.

20 A. I have to actually squint.

21 Q. Well, I think --

22 A. Yes, I see one here in --

23 Q. Third from the top, Putnam Street.

24 A. Yes. That's correct.

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1 Q. And Cilley Road?

2 A. And Cilley Road, in Manchester, that's correct. And,  
3 Faxon Street, in Nashua, looks like it had some 6-inch  
4 as well.

5 Q. Where do you see that?

6 A. Oh, I'm looking at the wrong column, I'm sorry. That's  
7 what the relay diameter was.

8 Q. Okay.

9 A. You're correct. Yes.

10 Q. Well, there's a number of these where the relay  
11 diameter shows it going up, such as Cilley Road, where  
12 it was 4 and 6, went to 6 and 8.

13 A. Yes. It does not give the breakdown. This spreadsheet  
14 does not give the breakdown of how much was 6 and how  
15 much was 8, nor -- and it doesn't break down, you know,  
16 it just lumps those two together.

17 Q. Well, do you have a concern --

18 A. I think one of -- I don't mean to cut you off. I think  
19 one of the things that we would -- going forward I  
20 would like to do is to memorialize a little bit better  
21 as to which projects are going to go up in size and  
22 which ones don't. We have discussions during meetings,  
23 but I think maybe a more formalized approval process  
24 might help those -- that happening. And, then, we

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1       could say, to get back to Mr. O'Neill's comment, then,  
2       you know, those might be things that wouldn't be  
3       allowed.

4   Q.   So, back to Broadway, for instance.  It appears to have  
5       the highest average cost per foot, even though it had  
6       no degradation fee.  I think it shows "\$405 per foot  
7       actual cost".

8   A.   Yes.  And, two columns over it was \$133,000 over what  
9       the estimate was.

10  Q.   Is it possible that some of that is attributable to the  
11       use of 8-inch pipe, rather than the 6-inch pipe?

12  A.   I would suspect that.  I just don't know how much.

13  Q.   So, what are you saying?  That, because we really don't  
14       have a formal or memorialized process for pre-approving  
15       or judging which should be upgraded in diameter versus  
16       which shouldn't, that you're not suggesting that we  
17       should disallow any of that high cost for Broadway?

18  A.   Well, I believe that, you know, 8-inch wasn't required  
19       for the job.  I believe that there's some extra cost  
20       going from 6-inch to 8-inch.  But it's hard for me to  
21       identify how much that is and how much of that that  
22       amount is.  So, it's hard for me to say that, of that  
23       \$133,000, whether \$30,000 of that is as a result of  
24       that or \$100,000 is a result of that.  So, since I

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1           can't say, it makes it -- you know, I'm not saying it.

2                       CMSR. BELOW:   Okay.   Thank you.

3                       CMSR. IGNATIUS:   Thank you.

4   BY CMSR. IGNATIUS:

5   Q.   Mr. Knepper, you said that the average cost per foot  
6       was higher than it was in I think you said nationally,  
7       although maybe you were making a reference to something  
8       regional or others in the state. Can you help me with  
9       that please?

10   A.   Yes. It is higher than the other gas companies within  
11       the state. I did do some research to find out what  
12       some of the cast iron replacement numbers are, in terms  
13       of costs, in other docketed cases across the country.  
14       It seems higher than that. I looked at Baltimore's,  
15       for instance, and some other urban areas, so that we  
16       weren't comparing something to, you know, an Arizona,  
17       out West, this is still being East Coast city  
18       situation, which is what we have here. So, within the  
19       state and some of the other ones, I do find it's  
20       higher. My concern is is that, even for next year, the  
21       next cost per foot are estimated, in our discussions,  
22       were climbing to over \$290 a foot. So, the hard part  
23       for us is is to, you know, what will the actuals come  
24       in at, and where does it become -- it's becoming --

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1       it's becoming very noticeable that it's, on a per unit  
2       basis, different than the other companies that are  
3       installing cast iron/bare steel.

4   Q.   Have you inquired, in your meetings with the Company,  
5       why it continues to go up, both in the estimates and in  
6       the actuals, maybe we'll take those one at a time, on  
7       the estimates, why those are climbing so much?

8   A.   Well, I think the estimates, you know, there's a lot of  
9       variables that go into the estimates. And, when we  
10      initially start with this process, which we start every  
11      year in January, you know, they start with a flat -- a  
12      flat estimate, so much a loading factor. Doesn't  
13      really say, and I don't know if it comes from the  
14      previous year or not. Then, as they get more refined  
15      variables throughout the process, they've met with the  
16      city on this project, or they have found out that  
17      paving is going to be cut back or these things go  
18      change. As we get involved, we look at the sizing, can  
19      we try to keep the costs down by replacing in kind and  
20      going through that process. But it just -- it's hard  
21      for me to, you know, it's only a one year period  
22      between when the estimate is and the actual, and  
23      because it's such a short duration, why they can't be  
24      closer to each other.

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1 Q. Have you seen other companies have significant  
2 increases in the estimates year to year?

3 A. It's -- the answer to that is "no", because I don't do  
4 that comparison, because we don't have this type of  
5 detail in front of us to be able to make that  
6 comparison. They're required to give estimated costs  
7 for capital projects once a year on their -- required  
8 here at the Commission. So, we see what their  
9 estimates are. But I don't -- I never get to see what  
10 the actuals are until, you know, they file a rate case.  
11 And, so, it can be many, many years later. So, it's  
12 not year to year.

13 Q. What was the estimated cost per foot for this year? I  
14 think you gave us, for the prior years, 130 and 195.

15 A. I believe they already testified to that. I have to  
16 look on the spreadsheet here. I believe it shows on  
17 the far right-hand column, second, where it says  
18 "Average L cost per foot". My assumption is, the "L"  
19 stands for the "loading cost" and the "D" stands for  
20 "direct cost". And, it looks like they were estimating  
21 at 271. And, it looks like, when you go back to the  
22 other column that came in, so, it looks like they were  
23 very close this year.

24 Q. And, yet, the estimate for next year is up again to

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1 290?

2 A. Yes. I don't think you have that information in front  
3 of you. That's based on discussions with Staff, when  
4 we talked with them in January and in -- later in I  
5 believe it was either April or May of this year.

6 Q. Has the Company, when you meet with them, have they  
7 given you explanations for why the costs have gone up  
8 so much?

9 A. During those meetings, the people -- we're really  
10 focused on the projects and picking, the selection  
11 process. But, you know, I think the people that I meet  
12 with, you know, they're given these costs, they're  
13 assigning these costs. So, that's kind of what it --  
14 that's the answer I get from them. You know, it's  
15 their overhead costs that are being allocated to this.  
16 And, so, you know, they don't really feel it's  
17 something that they can control. So, we're trying to  
18 do two things. We're trying to pick the right -- the  
19 riskiest pipes, and that's really where our focus is.  
20 But, at the same time, I have to be in mind, you know,  
21 "what is the overall cost of the scope of this year's  
22 work going to be?" And, so, that's where the cost  
23 comes in.

24 Q. Is the work done by employees of the Company or by

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1 subcontractors?

2 A. Majority of the Cast Iron/Bare Steel Program is done by  
3 subcontractors. At least that's what it's been in the  
4 past. I believe most of this work last year was done  
5 by their primary subcontractor, R.H. White. I believe  
6 the stuff that's going on currently today is being done  
7 by a different subcontractor.

8 Q. Has there been any offer by the Company or request by  
9 you to work towards a reduction in the cost or better  
10 understanding of why the costs are escalating?

11 A. Well, I just think it's something that we can't really  
12 seem to get our arms around, we can't get a handle on.  
13 Because you have these degradation fees that we talked  
14 about, the impact fees. There's so many pieces of the  
15 pie that go into it, I don't think we've really been  
16 able to have much inroads in this. I don't necessarily  
17 know that, you know, I don't think National Grid wants  
18 to have these high costs per foot. But, at the end of  
19 the day, they are.

20 So, my point in bringing it up is, it  
21 affects the selection process every year. If the cost  
22 per -- unit costs go up, I'd rather have them be going  
23 down, and then we can get more of this leak-prone pipe  
24 replaced earlier. But we seem to be getting, you know,

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1 a little bit less. Next year, we're even proposing  
2 less footage than this year.

3 Q. Do you have any recommendations on how we might get a  
4 better handle on why the costs are going up or ways to  
5 bring those costs down?

6 A. At this point, I don't. I think that might be a better  
7 -- a better question towards the Company.

8 Q. Is that something that you think would be beneficial to  
9 explore between the Company and the Staff over the next  
10 six months?

11 A. Yes. I mean, I think it's, you know, we get into the  
12 weeds onto each project case by case by case. And, so,  
13 it becomes, without being in the field and monitoring  
14 each project, as to why the costs came in so much  
15 different, we're not finding -- I would say we're not  
16 finding common variables. You know, one project is "it  
17 was deeper than it was, I had to put in shoring." The  
18 next one was "well, the paving requirement was  
19 different." The next one might have been -- and, so, I  
20 don't think we're finding across the board one answer.  
21 The overhead costs, though, I think are a significant  
22 portion, because we do break out the loading costs.  
23 And, you know, they are a good portion. I can try to  
24 work on the direct costs, not so much the loaded cost

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1 -- the loading costs.

2 CMSR. IGNATIUS: Thank you very much.

3 BY CHAIRMAN GETZ:

4 Q. Mr. Knepper, a couple questions about this Broadway  
5 project, I want to make sure I understand what you've  
6 testified to. So, I'm on the second page of Attachment  
7 A to Exhibit 1, the fourth column at the top says "Exst  
8 Diameter", is that "existing diameter"?

9 A. Yes, that's the "existing diameter".

10 Q. Which is the 6-inch.

11 A. 6-inch.

12 Q. Now, there's no place on either page that says if it  
13 was -- that the new pipe was at 6 or 8-inch?

14 A. It would say, one, two, three, four columns to the  
15 right of that, it says "Relay Diameter", that tells you  
16 what they replaced it with. So, it says 6 was there,  
17 and they replaced it with 6, is what this table  
18 represents.

19 Q. So, "Relay Diameter" tells me what the replacement was?

20 A. Correct.

21 Q. Okay. And, you're concluding from the average  
22 construction cost per foot that they must have used  
23 8-inch or you know for a fact?

24 A. I know for a fact they have used 8-inch.

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[WITNESS: Knepper]

1 Q. But someone can --

2 A. We inspected it as the Safety Division. And, as part  
3 of our inspection reports, the pictures, witnessed it,  
4 drove by it every day on my way to work.

5 CHAIRMAN GETZ: Okay. Thank you.

6 Anything further, Mr. Speidel? Redirect?

7 MR. SPEIDEL: Not at the present time.

8 **REDIRECT EXAMINATION**

9 BY MR. SPEIDEL:

10 Q. Although, I would like to ask Mr. Knepper, on second  
11 thought, would it be useful, we had heard from the  
12 Company that they referred to the percentage of their  
13 total infrastructure cost expenditure in New Hampshire  
14 being applied to the CIBS Program as a certain  
15 percentage. Do you think it might be useful for Staff  
16 to receive an informal response to our request for  
17 their total capital expenditures percentagewise being  
18 expended in CIBS last year and their projections for  
19 next year as a part of total capital expenditures, you  
20 might find that useful?

21 A. I think it might be useful. As you can see, the amount  
22 of information we're starting to request is getting to  
23 be extensive. So, I think we're trying to keep these  
24 costs down. We are asking, and the Company has

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1 provided, you know, every stitch of the way. But, you  
2 know, absent of us being there on the job and being  
3 part of the Company, it's hard to look at it after the  
4 fact. I mean, this one, to me, sticks out. When you  
5 have "\$405 a foot", to me that indicates that  
6 something, you know, sticks out. And, when it's -- the  
7 cost overrun was, you know, much more significant than  
8 the others, caused me to go back and look. And, yes,  
9 I'm sure part of that was because of 8-inch.

10 But, you know, could we request, you  
11 know, what I heard in testimony this morning was, is  
12 that, you know, 27 percent, and this is 29 percent, it  
13 doesn't appear that there's any allocation that's  
14 unusual. So, we could look at it to see if it's  
15 changing from year to year, and we could look at it to  
16 see if there is a year where there is something  
17 unusual.

18 I think we're both -- I think, you know,  
19 the Company and Staff are trying to look at this,  
20 because I think it's a worthwhile program, if I can  
21 keep the containment of costs.

22 So, you know, and the positive things  
23 that I looked at that -- that I like about it is, I  
24 don't think that they're taking other projects and

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1 putting them all into the CIBS Project. We look at the  
2 non-CIBS bare steel and cast iron replacement numbers  
3 that they report, that don't show up on here, to see if  
4 they're still doing work outside the CIBS Project, that  
5 it's still replacing that. And, that has seemed every  
6 year to be being done at the same time. So, it's not  
7 that they're abandoning some work and throwing it all  
8 into this. And, so, I'm glad to see those numbers.  
9 I'm glad to see the bare steel services being replaced,  
10 they don't really get emphasized here, because we talk  
11 about the mains.

12 So, there's some positives that I'm  
13 encouraged about. The negative that I'm trying to  
14 express my concern is the creeping cost. And, we'll  
15 continue to try to make efforts. We've expressed them  
16 during technical sessions, I think the Company knows  
17 that, and see if it can change.

18 MR. SPEIDEL: Thank you.

19 CHAIRMAN GETZ: Okay. Then, the witness  
20 is excused. Thank you, Mr. Knepper. Is there any  
21 objection to striking the identification and admitting the  
22 exhibit into evidence?

23 (No verbal response)

24 CHAIRMAN GETZ: Hearing no objection, it

1 will be admitted into evidence. Is there anything to  
2 address before opportunity for closings?

3 (No verbal response)

4 CHAIRMAN GETZ: Hearing nothing, then,  
5 Mr. Speidel.

6 MR. SPEIDEL: Thank you very much,  
7 Commissioners. Staff does support the recovery as filed  
8 for by the Company. That said, I think we have heard a  
9 number of statements to the effect that we can only exhort  
10 the Company to apply itself in the field of cost control  
11 to this critical program a little bit more vigorously  
12 going forward. And, the Staff looks forward to working  
13 with the Company this upcoming winter to do so. Thank you  
14 very much.

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

16 MR. O'NEILL: Thank you. The Company  
17 appreciates the cooperation that is shown throughout the  
18 proceeding with the Cast Iron/Bare Steel Program, and  
19 appreciates the support in terms of the cost recovery.

20 The Company shares Mr. Knepper's  
21 concerns regarding the cost controls. And, what I hope  
22 the Commission would be able to take away from what they  
23 heard today is that the Cast Iron/Bare Steel Program, as  
24 established in New Hampshire, is unique in that it allows

1 the Company and the Staff to work very cooperatively each  
2 year in deciding what projects should be replaced in New  
3 Hampshire, how the projects should be designed, and have  
4 ongoing discussions about ways to control those costs.  
5 And, I think, if you look at the trending that Mr. Knepper  
6 brought up, you can see that, although the costs, in  
7 general, have increased, due to factors such as the  
8 degradation fees that are being imposed upon us by Concord  
9 and Manchester that the Company talked about, and other  
10 specific factors in the field. One thing that we have  
11 seen over three years, which I would attribute to the  
12 cooperative relationship with Staff, is that the spread  
13 between the estimates and the actuals have indeed gotten  
14 closer. You know, as Mr. Knepper pointed out, the spread  
15 in year one was fairly significant, we narrowed it in year  
16 two, we narrowed it even further in year three.

17 So, yes, costs are generally increasing,  
18 as a result of factors that are somewhat out of the  
19 Company's control. But, as a general matter, the Company  
20 is doing a much better job of keeping the spread between  
21 the estimate and the actuals closer, so that good, solid  
22 decisions can be made as to how many projects should be  
23 done in every given year and what the potential bill  
24 impacts of those projects would be.

And, another unique feature of the program, as set up in the Merger Settlement proceeding in DG 06-107, is that Staff does have the ability to determine that, if the bill impacts from a proposed program were to become too significant, they can request, not only request, they can require that the Company scale the program back. So, the program is very unique in that respect. The Company believes that it's a worthwhile, valuable program for removing leak-prone pipe that could have, you know, consequences for New Hampshire customers, and it is doing its best to minimize the bill impacts, where possible. Thank you.

CHAIRMAN GETZ: One question about the Broadway project, Mr. O'Neill. Does the Company agree or disagree with Staff's position that the replacement pipe was 8-inch?

MR. O'NEILL: I'm informed by the Company that it was replaced with 8-inch pipe, yes.

CHAIRMAN GETZ: Okay. Hearing nothing further, then we will close the hearing and take the matter under advisement. Thank you, everyone.

(Whereupon the hearing ended at 11:03  
a.m.)