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Witness	T Finneral - M Rosen
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PRE-FILED DIRECT TESTIMONY
OF
THOMAS FINNERAL AND MINDY ROSEN

May 15, 2012

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1 **I. INTRODUCTION**

2 **A. Mr. Finneral**

3 **Q. Please state your full name and business address.**

4 A. My name is Thomas Finneral. My business address is 40 Sylvan Road, Waltham,
5 Massachusetts, 02451.

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

7 A. I am the Program Manager, Gas Construction New England for National Grid
8 Corporate Services, LLC.

9 **Q. Would you provide a brief overview of your experience and education?**

10 A. Yes. In 1996 I received a Bachelors of Business Science in Mechanical
11 Engineering from the University of Massachusetts. I have been employed by
12 National Grid and its legacy companies since 1992, and have held various
13 positions including Project Engineer, Construction Supervisor, Lead Engineer,
14 Construction Manager and my current position Program Manager, Gas
15 Construction New England. One of my responsibilities as Program Manager, Gas
16 Construction New England is the execution and tracking of the Cast Iron/Bare
17 Steel (“CIBS”) Program for New Hampshire.

18 **Q. Have you previously testified in regulatory proceedings?**

19 A. Yes. In 2010 and 2011, I testified before the New Hampshire Public Utilities
20 Commission (“Commission”) on behalf of EnergyNorth Natural Gas, Inc. (d/b/a

1 National Grid NH) (“National Grid” or “Company”), regarding the CIBS
2 program.

3 **B. Ms. Rosen**

4 **Q. Please state your full name and business address.**

5 A. My name is Mindy Rosen. My business address is 40 Sylvan Road, Waltham,
6 Massachusetts, 02451.

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

8 A. I am Lead Financial Analyst, Revenue Requirements for National Grid USA
9 Service Company.

10 **Q. Would you provide a brief overview of your experience and education?**

11 A. Yes. In 1979, I received a Bachelors of Business Administration with a major in
12 finance from the University of Missouri-Kansas City. In 1981, I received a
13 Masters of Business Administration with a major in finance. In addition, I am a
14 Certified Public Accountant, licensed in the Commonwealth of Massachusetts.
15 Prior to joining National Grid, I was the North American Operations Controller
16 for Kaymed, Inc., a multinational manufacturer. I have also been employed by
17 BTU International as the Manager of Financial Compliance with responsibilities
18 for SEC Reporting, Taxes and Sarbanes Oxley Compliance. In addition, I held
19 various positions at U.S. Filter Inc., starting as an Accounting Manager and

1 progressing to Controller of a \$400,000,000 division with 68 service branches
2 nationwide and 4 manufacturing facilities.

3 I joined National Grid USA as a Lead Financial Analyst, Gas Revenue
4 Requirements in 2009. In June 2011, I became Lead Financial Analyst, Revenue
5 Requirements with responsibility for revenue requirements modeling and analysis
6 for National Grid USA's gas and electric distribution activities in New England
7 under the supervision of the Directors of Revenue Requirements for National Grid
8 USA's New England affiliates.

9 **Q. Have you previously testified in regulatory proceedings?**

10 A. Yes, I have testified on three occasions before the Commission on behalf of
11 National Grid, twice regarding the CIBS program and once in support of a
12 settlement agreement regarding the Carrying Charge Rate for Cash Working
13 Capital. I have also testified before the Massachusetts Department of Public
14 Utilities in support of a capital tracker mechanism for Boston Gas Company and
15 Colonial Gas Company.

16 **II. PURPOSE OF TESTIMONY**

17 **Q. What is the purpose of this testimony?**

18 A. The purpose of this testimony is to explain the Company's annual program report
19 and revenue requirement calculation associated with the CIBS main replacement

1 program for fiscal year (“FY”) 2012, or the twelve months ended March 31, 2012
2 (“FY 2012”).

3 **Q. Please describe the purpose of the CIBS Program.**

4 A. The CIBS program was established as part of the National Grid / KeySpan merger
5 settlement agreement approved by the Commission in Order No. 24,777 (July 12,
6 2007) in Docket No. DG 06-107 (“Merger Agreement”). The program is aimed at
7 accelerating the replacement of cast iron and bare steel pipes used in the National
8 Grid distribution system, which tend to deteriorate over time. These are pipes that
9 have been in-ground and exposed to a corrosive environment and earth movement
10 for many years, in some cases more than one hundred years.

11 **Q. How is the CIBS program implemented?**

12 A. Under the CIBS program, National Grid annually submits its plan for the
13 replacement of cast iron and bare steel pipes for the coming fiscal year (“CIBS
14 Plan”) to the Commission Staff for review and comment. The proposed plan sets
15 forth a prioritized list of pipes to be replaced based upon the year of installation
16 and condition of the pipe as well as other relevant factors. Subject to certain
17 limited exceptions, pipes replaced as part of public works projects or as part of the
18 Company’s gas main encroachment policy are excluded from the CIBS program
19 because these pipes would likely have been replaced even in the absence of the
20 program. Following review by Staff, including technical sessions between Staff

1 and the Company, National Grid implements the CIBS plan over the course of the
2 fiscal year, subject to reasonable deviations based on circumstances that may arise
3 or additional information that may become available.

4 The base amount of capital expenditures required under the CIBS program is
5 \$500,000 (“CIBS Base Amount”), and National Grid is permitted a permanent
6 increase in its base distribution delivery rates (“Capital Investment Allowance”),
7 effective as of July 1 of each year, to recover the annual revenue requirement for
8 investments made in excess of the CIBS Base Amount during the preceding fiscal
9 year.

10 By May 15 of each year, National Grid submits an annual CIBS report and rate
11 adjustment filing (“CIBS Report”) detailing the actual amount expended in
12 implementing the CIBS plan for the prior fiscal year. Accompanying the CIBS
13 Report are schedules showing the calculation of the associated revenue
14 requirement. The form of the CIBS revenue requirement calculation is set forth in
15 the Merger Agreement.

16

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1 **Q. Are there any attachments supporting your testimony in this proceeding?**

2 A. Yes. Included with our testimony are the following supporting attachments:

Attachment	Description
Attachment A	FY 2012 CIBS Report
Attachment B	FY 2012 CIBS Final Cost Report
Attachment C	FY 2012 CIBS Revenue Requirement Calculation
Attachment D	Illustrative Example of CIBS Revenue Requirement from Inception of the Program
Attachment E	Illustrative Computation of Revenue Requirement Refund on Degradation Fees

3 **III. FISCAL 2012 CIBS PROGRAM**

4 **Q. Please describe the FY 2012 CIBS program.**

5 A. The FY 2012 CIBS program was based on a preliminary project plan developed
6 by the Company in January 2011 and agreed to by Staff during subsequent
7 technical sessions. Based upon comments received from the Staff, National Grid
8 revised its FY 2012 CIBS Plan and subsequently submitted a final version to
9 Staff. The final FY 2012 CIBS program consisted of 13 new projects comprising
10 1.7 miles of replacement main and the abandonment of 0.2 miles of main for an
11 overall 1.9 mile reduction of leak prone pipe, as well as final restoration work on
12 three projects that could not be completed in FY 2011, at a total estimated cost of
13 \$2,932,831. The program also included the replacement of 72 associated non-
14 plastic services.

1 A report summarizing the FY 2012 CIBS program is included as Attachment A to
2 this testimony. The report includes, among other things, an overview of the actual
3 capital expenditures incurred in implementing the FY 2012 CIBS Plan, variances
4 in initial project estimated costs and final estimated project costs, and the
5 calculation of the FY 2012 CIBS revenue requirement. Also included with the
6 report is a “2011 New Hampshire Condition Bare Steel Main Replacement
7 Program – Sample Analysis,” describing steel pipe and soil samples collected
8 from the CIBS projects completed in New Hampshire over the course of the 2011
9 construction season.

10 **Q. Please provide a brief overview of Attachment B**

11 A. Attachment B is the FY 2012 CIBS Final Cost Report, which compares the FY
12 2012 CIBS Plan to the actual units completed and the actual FY 2012 costs
13 incurred through March 31, 2012. Overall, the Company replaced 1.56 miles, as
14 compared to the proposed 1.7 miles, at a final FY 2012 recoverable cost of
15 \$1,922,213 with an estimated \$669,192 in carry over costs for final restoration
16 work and the associated degradation fees. The Company also replaced 59 bare
17 steel services, 12 plastic services and 10 coated steel services. The costs for the
18 plastic and coated steel services have been removed from the program (see
19 Attachment B, Page 1, Column O, Line 24).

1 **Q. Please explain the amount of estimated carry-over costs from FY 2012 CIBS**
2 **projects that the Company expects to incur in fiscal year 2013 (“FY 2013”),**
3 **as shown on Attachment B.**

4 A. At the end of every fiscal year, there is some level of work related to that year’s
5 CIBS Plan that carries over into the following fiscal year. The carry-over costs
6 associated with such work are therefore included in the next fiscal year’s CIBS
7 Plan. In general, such costs are related to final trench restoration work that could
8 not be completed in the planned fiscal year, as well as associated road degradation
9 fees paid to the municipality.

10 Carry-over costs from FY 2012 that are included in the FY 2013 CIBS Plan are
11 higher than they have been in years past because much of the FY 2012 CIBS
12 work was performed later in the construction schedule to accommodate other
13 replacement work coinciding with time-sensitive municipal improvement
14 projects. As a general practice, the Company works closely with municipalities to
15 coordinate efforts when either entity has planned construction work. Thus, for
16 example, when a municipality is resurfacing a street and the Company can
17 coordinate its own replacement work in that area in advance of the municipality’s
18 restoration efforts, the Company will do so. This ultimately lowers the
19 Company’s unit cost and improves customer satisfaction in those areas.

20

1 **Q. What efforts does the Company take to control CIBS program costs?**

2 A. Prior to submitting its final FY 2012 and FY 2013 CIBS Plans, the Company
3 conferred with Staff to review proposed projects and discuss least cost
4 alternatives. For example, pursuant to Staff requests, the Company re-evaluated
5 three of its proposed projects in its initial FY 2012 Plan, identified lower cost
6 alternatives for two of those projects, and revised the final FY 2012 CIBS Plan
7 accordingly. For FY 2013, the Company re-evaluated seven of its proposed
8 projects after meeting with Staff, identified lower cost alternatives for two of
9 those projects, and subsequently revised its final FY 2013 CIBS Plan. The
10 Company controls direct construction costs by exercising direct oversight over all
11 construction projects. This includes the deployment of contractor oversight
12 supervisors and a construction inspector in the field to closely monitor all field
13 activity, mitigate any changes to project scope, and ensure contractor adherence to
14 the applicable mains and services contract.

15 Other significant drivers of costs associated with FY 2012 CIBS projects are
16 contractor labor costs, final restoration requirements for New Hampshire
17 municipalities, and roadway degradation fees imposed by Manchester and
18 Concord. The Company's FY 2012 contractor labor costs are fixed costs (to the
19 extent that the length of main being replaced has already been determined) that
20 were established through a competitive bidding process for a three-year contract.
21 FY 2012 was the last year of this contract. In an effort to control contractor labor

1 costs, the Company recently underwent an RFP process for a three year mains and
2 services contract with 12 qualified construction contractors. The Company
3 selected and entered into a three-year contract with the most competitive bidder.

4 The Company's ability to manage final restoration costs is less flexible. Final
5 restoration requirements imposed by New Hampshire municipalities, including
6 Manchester, Nashua, and Concord, are considerably higher than those imposed by
7 municipalities in other states in which National Grid operates. For example, most
8 New Hampshire municipalities in which National Grid performs work require a 2
9 foot cutback of the gas trench to the depth of the existing pavement, and at least
10 one municipality requires a 3 foot cutback of the gas trench and a dig out to a
11 depth of 18 inches, with gravel replacement. Such requirements result in
12 additional direct charges of \$60 to \$100 per linear foot, depending on the
13 municipality.

14 By contrast, in most other areas outside of New Hampshire where National Grid's
15 affiliates operate, restoration work is limited to repaving the gas trench back to its
16 original condition. For example, in 1993, the Massachusetts Department of
17 Public Utilities issued order MA 98-22, which standardizes the requirements that
18 public utilities must comply with when restoring a roadway within a
19 Massachusetts municipality. This ensures that legitimate public safety concerns
20 are addressed, while at the same time attempting to control unit costs and limit the

1 amount of main replacement expense that a utility must seek to recover through
2 rates.

3 Finally, a large number of the Company's CIBS projects are located in Concord
4 and Manchester, which require road degradation fees based on the limits of the
5 final disturbed area, after cutbacks. In FY 2012, approximately 92 percent of the
6 FY 2012 CIBS footage was installed within these two municipalities and was
7 subject to these fees. There is a varying fee schedule, based on whether the work
8 is within the roadway, sidewalk, or shoulder of the road. Typically, the fees
9 equate to an additional \$5 per square foot of the final restoration area, which
10 equates to an additional \$30 per linear foot after the final cutbacks. The cities
11 impose these degradation fees in addition to the existing road opening permit fees
12 that National Grid must pay to obtain the necessary permits.

13 **Q. Has the Company attempted to address the degradation fees required by**
14 **Manchester and Concord?**

15 A. Yes. As described in greater detail below, the Company has challenged the
16 degradation fees assessed by Concord and Manchester in New Hampshire
17 Superior Court. The Company prevailed on summary judgment in the Concord
18 litigation. The City of Concord has appealed the Superior Court's decision to the
19 New Hampshire Supreme Court, and the Manchester litigation has been stayed

1 pending resolution of Concord's appeal. The Supreme Court will hear oral
2 arguments regarding the Concord appeal on June 13, 2012.

3 **Q. Can you please explain the variance between the initial estimated total cost of**
4 **the FY 2012 projects (\$2,932,831) and the estimated final costs (\$2,678,233)?**

5 A. The estimated total cost of the FY 2012 CIBS program was \$2,932,831 when the
6 National Grid finalized its FY 2012 CIBS Plan in 2011, and the Company now
7 estimates the final cost to be \$2,678,233 once the final restoration work has been
8 completed and the associated degradation fees have been paid. Although there
9 were variances typical to underground construction within each project, as shown
10 in Column AF of Attachment B, as typical with underground construction, the
11 largest variance in the program was due to work order 768265-Valley Street in
12 Manchester, which is shown on Attachment B, Page 1 Line 14. This variance was
13 driven by the fact that the Company was not able to perform work on this project
14 as planned in FY 2012. In particular, Valley Street was resurfaced in 2009, and
15 was therefore under moratorium by the city, so the Company could not obtain a
16 road opening permit to excavate a newly restored street. Since the Valley Street
17 project was estimated at \$296,637, adjusting for this project reduces the estimated
18 program cost down to \$2,636,194, with the overall program variance within 2%.
19 Attachment B, Page 1, Column O, Line 24).

20

1 **IV. REVENUE REQUIREMENT CALCULATION**

2 **Q. Please describe the revenue requirement calculation and the proposed**
3 **recovery period.**

4 A. The revenue requirement calculation represents the CIBS program spending for
5 FY 2012. The Company proposes to recover this revenue requirement beginning
6 July 1, 2012, through an increase in its base distribution rates.

7 **Q. What amounts are included in the CIBS revenue requirement?**

8 A. The revenue requirement for FY 2012 is calculated in Attachment C and is based
9 on actual spending related to projects set forth in the final FY 2012 CIBS plan
10 submitted to Commission Staff in 2011. It also includes, for illustrative purposes,
11 a projection of the estimated revenue requirement on CIBS-eligible expenses that
12 the Company expects to incur in FY 2013. The Company has also included,
13 pursuant to a Staff request in a previous technical session and for informational
14 purposes only, a calculation of the total revenue requirement associated with the
15 CIBS program from its inception in FY 2009. This calculation includes CIBS
16 investment amounts through June 30, 2009 that became part of the permanent rate
17 base established in the Company's last distribution rate case, Docket DG 10-017.

18 **Q. Please explain how the CIBS revenue requirement is calculated.**

19 A. As shown in Attachment C, eligible CIBS investments are split into the categories
20 of mains and services. Recoverable book depreciation expense is calculated
21 based on these investment amounts using the depreciation rates set in the

1 Company's last approved depreciation study (which was approved in DG 08-
2 009). The depreciation expense amount is used to calculate the deferred tax
3 reserve associated with the effects of the timing difference between book and tax
4 depreciation. The deferred tax reserve, along with accumulated book
5 depreciation, reduces the rate base upon which the Company is eligible to earn a
6 return in the first year. The adjusted rate base is multiplied by the pre-tax rate of
7 return of 11.63 percent to arrive at the return on rate base and taxes. Added to the
8 return and taxes are the actual calculated depreciation expense and the additional
9 property taxes on the new investment. The property tax rate is calculated
10 annually and is based on prior calendar year municipal property tax expense as a
11 percentage of the average of the prior two calendar year's net plant in service.

12 **Q. Does the Company's filing propose any adjustments to the rate change**
13 **implemented last year for the FY 2011 CIBS projects?**

14 A. Yes, the Company has revised the amount of book depreciation expense that it
15 reflected in its FY 2011 revenue requirement calculation. As a result, the
16 Company has also applied a corresponding credit to the revenue requirement
17 calculated for FY 2012.

18

19

1 **Q. Please explain why the Company revised the book depreciation related to the**
2 **FY 2011 revenue requirement calculation.**

3 A. In preparing its rate adjustment filing for the FY 2011 CIBS program, the
4 Company reflected accumulated depreciation expense, rather than annual
5 depreciation expense, in calculating its FY 2011 revenue requirement. The FY
6 2011 revenue requirement calculation, as filed, and upon which the CIBS rate
7 adjustment in July 2011 was based, is included as Page 2 of Attachment C. Using
8 the correct annual depreciation figure, the incremental FY 2011 rate adjustment
9 falls from \$521,590, as shown on Attachment C, Page 2, Line 39(c) (the amount
10 submitted by the Company and used to set the CIBS rate increase last year) to
11 \$422,796, as shown on Page 1, Line 39(c) of Attachment C. Thus, the Company
12 overstated the revenue requirement for the FY 2011 CIBS program by \$98,794.

13 **Q. How has the Company addressed this overstatement in the FY 2012 revenue**
14 **requirement calculation?**

15 As shown on Attachment C, Page 1, Line 43(d), the Company has credited the
16 \$98,794 difference to the revenue requirement associated with the FY 2012 CIBS
17 projects.

18

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1 **Q. What is the CIBS revenue requirement for fiscal year 2012?**

2 A. As shown on Attachment C, Page 1, the CIBS revenue requirement for FY 2012
3 is \$153,362. After applying the \$98,794 credit to this amount, the FY 2012
4 revenue requirement is reduced to \$54,568, as provided on Line 45(d).

5 **Q. Please explain how you calculated the FY 2012 revenue requirement amount.**

6 A. Page 1 of Attachment C provides detail as to how the Company derived the FY
7 2012 revenue requirement amount. Lines 1(d) and 2(d) represent the FY 2012
8 CIBS program investment related to mains and services, respectively. These
9 current year amounts are added together and reduced by the CIBS Base Amount
10 of \$500,000. For FY 2012, the net incremental amount of CIBS additions, after
11 the CIBS Base Amount, is \$1,422,213, as shown on Line 6(d). This amount is
12 then added to the cumulative incremental CIBS program additions from July 1,
13 2009 to March 31, 2011 of \$7,926,140, as shown on Line 7(c), to derive the
14 cumulative incremental CIBS program additions through March 31, 2012 of
15 \$9,348,353 as reported on Line 7(d).

16 On Lines 10(d) through 20(d) of Page 1, the Company shows the calculations for
17 book and tax depreciation, and the resulting deferred tax reserve. Because the
18 CIBS program spending is deemed to be 100 percent tax deductible, as discussed
19 later in our testimony, the cumulative tax depreciation on Line 11(d) is equal to
20 the cumulative incremental CIBS program spending of \$9,348,353 from Line
21 7(d). When compared to the accumulated depreciation of \$490,188 on Line

1 14(d), the resulting timing difference between book and tax is \$8,858,165, as
2 shown on Line 17(d). This amount is then multiplied by the Company's effective
3 tax rate and the deferred tax reserve of \$3,590,214 is shown on Line 20(d).

4 On Lines 23(d) through 27(d), the Company calculates rate base by reducing the
5 amount of cumulative incremental CIBS spending of \$9,348,353 by \$490,188 for
6 accumulated depreciation and \$3,590,214 for deferred tax reserves, resulting in a
7 year end rate base of \$5,267,951. The Company then multiplied the rate base
8 amount times the pre-tax ROR of 11.63 percent, which resulted in the return and
9 taxes amount of \$612,663 on Line 32(d). On Lines 33(d) and 34(d), the Company
10 added book depreciation of \$212,059 and property taxes of \$231,198. The
11 resulting FY 2012 revenue requirement is \$1,055,920, as shown on Line 35(d).
12 From this amount, the Company deducted the prior year revenue requirement of
13 \$902,558, as adjusted and shown on Line 37(d), to arrive at an incremental rate
14 adjustment of \$153,362 on Line 39(d). The Company then subtracted the \$98,794
15 related to the overstatement in its FY 2011 revenue requirement as previously
16 described, resulting in an FY 2012 incremental revenue requirement of \$54,568,
17 as shown on Line 45(d).

18 **Q. How are book depreciation expense and property tax expense calculated?**

19 A. Book depreciation expense is calculated on Page 3 of Attachment C. The actual
20 spending for mains and services is referenced on Page 1, Lines 1 and 2,

1 respectively. These amounts are reduced on a pro rata basis by the CIBS Base
2 Amount. The net amounts for mains and services are shown on Lines 3 and 23
3 and are used to calculate book depreciation expense for each vintage year. Lines
4 5 through 16 and 25 through 36 show the calculation of book depreciation
5 expense using the depreciation rates set in the Company's last approved
6 depreciation study (which was approved in DG 08-009). FY 2012 book
7 depreciation expense of \$149,424 and \$62,635 for mains and services is shown on
8 Lines 13(d) and 33(d), respectively. These amounts, when combined, equal
9 \$212,059, as shown on Line 40(d), which is carried forward to Page 1, Line 13(d).
10 Cumulative book depreciation expense of \$346,570 and \$143,618 for mains and
11 services are shown on Lines 16(d) and 36(d), respectively. Line 42(d) is the sum
12 of these two lines, amounting to \$490,188, which is then used on Page 1, Line
13 14(d).

14 Property taxes are calculated on Page 4 of Attachment C. Net plant is calculated
15 using plant in service as reported on the Company's Annual Report less the
16 reserve for accumulated depreciation and amortization. An average of the most
17 recent two years of net plant is then calculated on Lines 6 through 8. Line 10(g)
18 shows the property tax expense for the prior calendar year. The property tax
19 expense rate of 2.61% shown on Line 12(d) is calculated by dividing Line 10(g)
20 by the average net plant shown on Line 8(g). This property tax rate is then carried
21 forward to Page 1, Line 34 and is multiplied by net plant in service found on Page

1 1, Line 25(d), resulting in the property tax amount of \$231,198 on Page 1, Line
2 34(d).

3 **Q. What is the typical bill impact of this year's CIBS revenue requirement?**

4 A. Page 5 of Attachment C shows the typical bill impacts of the CIBS program. The
5 annual CIBS-related increase for FY 2012 for a Residential Heating customer
6 using 1,250 therms is \$0.42, as shown on Line 22(d).

7 **V. REPAIRS TAX DEDUCTION**

8 **Q. Can you explain the repairs tax deduction as it applies to projects completed**
9 **under the CIBS program?**

10 A. In 2009, the Internal Revenue Service ("IRS") issued guidance, under Internal
11 Revenue Code (IRC) Section 162, regarding the eligibility of certain repair and
12 maintenance expenses for an immediate deduction for income tax purposes, but
13 capitalized by the Company for book purposes. This tax deduction has the effect
14 of increasing deferred taxes and lowering the revenue requirement that customers
15 will pay under the CIBS program. Based on tax laws IRC §263(a) and §162,
16 repairs resulting in the replacement of less than 20 percent of an original unit of
17 property qualify for a repairs tax deduction. A gas company's gas subsystem is
18 considered a "unit of property" for the purposes of the repairs tax deduction.
19 Replacement pipe cannot be more than 2 additional inches in diameter from the
20 original pipe, and to the extent that a length of replacement pipe is longer than the

1 pipe being retired, the increase in length must be no more than 5 percent of the
2 subsystem for it to be eligible for the repairs tax deduction.

3 As described above, based on these criteria, the projects included in the CIBS
4 program are considered repairs by the Company and can be fully deducted from
5 the tax return for the year that they occur. Therefore, in computing the revenue
6 requirement, the Company is currently reflecting tax deductibility of 100 percent
7 for all CIBS jobs, pending additional guidance on this issue from the IRS, which
8 may ultimately result in changes to the CIBS revenue requirement calculation.
9 This tax deductibility results in a greater deferred tax reserve which reduces the
10 rate base and resulting revenue requirement charged to customers.

11 **VI. TREATMENT OF ROAD DEGRADATION FEES**

12 **Q. How will the Company address any refunded road degradation fees if it**
13 **prevails in its litigation against Concord and Manchester?**

14 A. As explained above, the Company is currently in litigation with the cities of
15 Concord, NH and Manchester, NH over degradation fees assessed pursuant to city
16 ordinances since FY 2011.

17 During FY 2011 and FY 2012, the Company included \$372,736 in degradation
18 fee expenses as part of the costs of the CIBS program. If the Company prevails in
19 the Concord and Manchester litigations, the Company will reflect the refund(s) it
20 receives from Concord and Manchester in the revenue requirement calculation in

1 the fiscal year (or years) in which those refunds are received. Customers will
2 receive the benefit of those refunds through a reduction to rate base (and
3 corresponding decrease in return and taxes) and a reduction in ongoing
4 depreciation expense and property tax expense in the same year that the Company
5 is reimbursed by the communities. Attachment E shows the illustrative
6 calculation of the impact on the revenue requirement of such a refund. Based on
7 degradation fees paid to date and embedded in the cumulative CIBS investment,
8 the impact on the revenue requirement in the year such fees are refunded to the
9 Company would be \$41,984 as shown on Page 1, Line 32. It is estimated that the
10 degradation fees to be incurred during the FY 2013 construction season will be
11 \$353,915. If the suit is concluded prior to the filing for the FY 2013 revenue
12 requirement, this additional amount will not be charged to the CIBS program in
13 FY 2013.

14 **Q. Does this conclude your testimony?**

15 A. Yes it does.