

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

June 14, 2013 - 1:11 p.m.  
Concord, New Hampshire

NHPUC JUL01'13 PM 3:21

RE: DG 13-149  
ENERGYNORTH NATURAL GAS, INC.  
d/b/a LIBERTY UTILITIES, INC.:  
2013 Cast Iron/Bare Steel Replacement  
Program Results.

PRESENT: Chairman Amy L. Ignatius, Presiding  
Commissioner Michael D. Harrington

Clare Howard-Pike, Clerk

APPEARANCES: Reptg. EnergyNorth Natural Gas, Inc.,  
d/b/a Liberty Utilities, Inc.:  
Sarah B. Knowlton, Esq.

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

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

ORIGINAL

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**WITNESSES:**                      **GWYN M. CASSETTY**  
   **MARK G. SAVOIE**  
**(Sworn in at Page 23)**      **RICHARD MacDONALD**

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   **RANDALL KNEPPER**

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**P R O C E E D I N G**

CHAIRMAN IGNATIUS: I'd like to open the hearing in Docket DG 13-149. This is EnergyNorth Natural Gas, doing business as Liberty Utilities, Cast Iron/Bare Steel Replacement Program results. We're here in response to a May 15, 2013 filing by Liberty, addressing its program results for its fiscal year April 1, 2012 through March 31, 2013. The Company submitted a report on its actual expenditures under the program for fiscal year 2013. It proposes an increase in annual revenues in the annual revenue requirement in its distribution rates for effect July 1st, and it explains differences from its 2013 fiscal year budget.

We issued an order of notice on May 17th calling for a hearing at this time. So -- now, I'm confused. We also -- we're seeking appearances, I guess I had forgotten -- I mean, excuse me, interventions as well. I had lost track of where we were procedurally. So, let's first begin with appearances.

MR. KNOWLTON: Good afternoon, Commissioners. My name is Sarah Knowlton. I'm here today for EnergyNorth Natural Gas, Inc., which does business as Liberty Utilities. And, with me today from the Company are the Company's two witnesses, Gwyn Cassetty and Mark

1       Savoie. And, at counsel's table, with me from the  
2       Company, is Richard MacDonald and Chris Brouillard, and  
3       behind them is ChristiAne Mason.

4                       CHAIRMAN IGNATIUS: Good afternoon.

5                       MR. SPEIDEL: Good afternoon,  
6       Commissioners. My name is Alexander Speidel. And, I am  
7       Staff Counsel. And, I have with me Director Randall  
8       Knepper of the Safety Division; Assistant Director Robert  
9       Wyatt of the Safety Division; and Assistant Director  
10      Stephen Frink of the Gas and Water Division.

11                      CHAIRMAN IGNATIUS: Good afternoon and  
12      thank you. It looks as though the Office of Consumer  
13      Advocate is not participating, it did not submit a letter  
14      stating that it would be, and isn't here today. And, I  
15      see no petitions to intervene, and there's no one else  
16      here. Is anyone aware of any entity that was seeking  
17      intervention that I've lost track of?

18                      MR. KNOWLTON: I'm not aware of any.

19                      CHAIRMAN IGNATIUS: All right. And, how  
20      about publication of the order of notice? Any issues  
21      there, Ms. Knowlton?

22                      MR. KNOWLTON: No, that was fine. The  
23      publication of the order of notice was made in the Union  
24      Leader. And, the Company -- that, excuse me, that

1 occurred on May 22nd, 2013, and the Company, on May 31st,  
2 filed the affidavit regarding that publication with the  
3 Commission.

4 CHAIRMAN IGNATIUS: All right. Thank  
5 you. Is there anything to take up before we begin with  
6 testimony?

7 MR. KNOWLTON: I have two things. The  
8 Company would propose to mark for identification as  
9 "Exhibit 1" the May 15, 2013 filing, which is Bates  
10 numbered 1 through 59. That's the only exhibit that the  
11 Company intends to mark.

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

15 MR. KNOWLTON: The other issue I wanted  
16 to raise, not really an issue, but make an offer. Is the  
17 Company, behind me, in boxes, some of the pipe that was --  
18 that actually appears in photographs in the report. We  
19 don't need to mark that as an exhibit. But, I did want to  
20 offer, if the Commission is interested, Mr. MacDonald will  
21 be glad to show the pipe and to, you know, give some  
22 explanation of the condition of the pipe, if that's  
23 something of interest. That's not something that we  
24 normally do, but we had the pipe with us. And, we

[WITNESSES: Cassetty~Savoie]

1 thought, "Hey, why not, let's offer."

2 CMSR. HARRINGTON: You're not going to  
3 make that offer to an engineer and expect me to say "no",  
4 are you?

5 MR. KNOWLTON: I thought it was pretty  
6 cool as a lawyer, so --

7 CHAIRMAN IGNATIUS: I thought it was a  
8 birthday gift for Mr. Knepper.

9 MR. MacDONALD: Well, it actually is a  
10 birthday gift for him.

11 MR. KNOWLTON: So, we'd be glad to, if  
12 that's something that you'd like to do, we'd be glad to do  
13 it, and at any point during the proceeding or if you  
14 prefer to do it off the record, whatever you'd like.

15 CHAIRMAN IGNATIUS: Yes, I think it's a  
16 good idea. There may be, obviously, there's interest in  
17 it, I don't think we need to have it transcribed in the  
18 discussion of it. But, if there's anything you want to  
19 make a point of, as part of today, you know, feel free,  
20 without making it an exhibit. We do now and then end up  
21 with some odd things in boxes from cases, and, unless  
22 anyone has a reason to want to maintain any of those in  
23 the record, I think it's more for information.

24 MR. KNOWLTON: All right. So, I think

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[WITNESSES: Cassetty~Savoie]

1        what we'll do then, for purposes of the hearing, is Ms.  
2        Cassetty will refer to the pictures that are in the  
3        filing. And, then, after we're done with the hearing,  
4        we're off the record, Mr. MacDonald can show it to you,  
5        and then we'll leave it with Mr. Knepper for his safe  
6        keeping.

7                    CHAIRMAN IGNATIUS: Okay. Thank you.  
8        Then, Mr. Patnaude, will you swear the witnesses.

9                    (Whereupon **Gwyn M. Cassetty** and  
10                    **Mark G. Savoie** were duly sworn by the  
11                    Court Reporter.)

12                    **GWYN M. CASSETTY, SWORN**

13                    **MARK G. SAVOIE, SWORN**

14                    **DIRECT EXAMINATION**

15        BY MR. KNOWLTON:

16        Q.     Good afternoon, Ms. Cassetty. I'll start with you.

17                Would you please state your full name for the record.

18        A.     (Cassetty) Gwyn M. Cassetty.

19        Q.     By whom are you employed?

20        A.     (Cassetty) I'm employed by Liberty Energy Utilities  
21                Corp.

22        Q.     What is your position with the Company?

23        A.     (Cassetty) I'm the Construction Manager.

24        Q.     And, in that role, what do your job duties include?

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[WITNESSES: Cassetty~Savoie]

1 A. (Cassetty) My job is to manage the outside contractors  
2 who install Liberty's gas and distribution  
3 infrastructure.

4 Q. Do you have any responsibilities that relate to the  
5 CIBS Program?

6 A. (Cassetty) The jobs that our outside contractor does  
7 include the CIBS, the CIBS jobs.

8 Q. We've marked as "Exhibit 1" the May 15th filing, and  
9 that contains joint testimony of you and Mr. Savoie.  
10 Do you have that in front of you?

11 A. (Cassetty) Yes.

12 Q. Was that testimony, or at least the portion of it that  
13 is yours, was that prepared by you or under your  
14 direction?

15 A. (Cassetty) Yes, it was.

16 Q. Do you have any corrections to your testimony today?

17 A. (Cassetty) No, I don't.

18 Q. And, I'm going to qualify Mr. Savoie as a witness, and  
19 then I'll come back to you, Ms. Cassetty, and ask you  
20 to summarize your testimony. One last question. If I  
21 were to ask you the questions that are contained in  
22 your testimony today, would your answers be the same?

23 A. (Cassetty) Yes, they would.

24 Q. And, Mr. Savoie, I'll next ask you to state your full

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[WITNESSES: Cassetty~Savoie]

1 name for the record.

2 A. (Savoie) My full name is Mark Savoie.

3 Q. By whom are you employed?

4 A. (Savoie) I'm employed by Liberty Energy Utilities New  
5 Hampshire Corp.

6 Q. What is your position with the Company?

7 A. (Savoie) My position is Utility Analyst.

8 Q. What do you do as a Utility Analyst?

9 A. (Savoie) My primary duties include preparing the gas  
10 cost recovery projections for Liberty and the related  
11 reconciliations, administering the Company's tariff,  
12 calculating the achieved rate of return, and appearing  
13 as a witness on rate matters.

14 Q. Do you have before you Exhibit 1, which is the  
15 Company's filing, which includes your joint testimony  
16 with Ms. Cassetty?

17 A. (Savoie) Yes, I do.

18 Q. And, was that, the testimony, with regard to your  
19 portion of it, prepared by you or under your direction?

20 A. (Savoie) Yes, it was.

21 Q. Do you have any corrections or clarifications to your  
22 testimony?

23 A. (Savoie) I don't have any corrections I want to make.

24 I do -- other than make one notation. On Bates Page

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[WITNESSES: Cassetty~Savoie]

1 34, the Staff brought to my attention, on Bates  
2 Page 34, I had a typing error in my table. In the  
3 "City of Manchester" column, "Fiscal 2013", the figure  
4 should be increased by \$20,000, from "362,335" to  
5 "382,335". Now, this change doesn't impact any of the  
6 rate increase we're requesting today. And, I'll make  
7 the correcting change for the following year's filing.

8 Q. Subject to -- well, do you have any other corrections  
9 or clarifications?

10 A. (Savoie) Well, there are some small impacts on the  
11 Attachment E, which Staff agreed wouldn't be worth  
12 refiling Attachment E. It changed the anticipated  
13 refund should we have all degradation fees abated, from  
14 81,701 to 83,547. But it does not impact the rate  
15 relief we're requesting.

16 Q. And, is that because there is no ability at this time  
17 to refund those degradation fees given the status of  
18 the litigation?

19 A. (Savoie) That is correct. I don't anticipate that, in  
20 the near future, that we'd be abating those -- get an  
21 abatement on those fees and refunding it to customers.

22 Q. And, is that because, when you say you "don't  
23 anticipate that", is that more because of the timing of  
24 the litigation or the Company's view of the outcome of

[WITNESSES: Cassetty~Savoie]

1 the case?

2 A. (Savoie) Because of the timing of the litigation.

3 Q. Subject to that correction, if I were to ask you the  
4 questions in your testimony today, would the answers be  
5 the same?

6 A. (Savoie) Yes.

7 Q. All right. Ms. Cassetty, I'll turn back to you. Would  
8 you please provide a summary of your testimony please.

9 A. (Cassetty) Yes. We submitted a plan for the Fiscal  
10 Year 2013 CIBS Program, which included replacing  
11 1.87 miles of bare steel pipe; included in that was 62  
12 bare steel services and 27 coated steel services for  
13 \$3.3 million total. Our actual replacement was 1.65  
14 miles, with 49 bare steel services and 35 plastic or  
15 coated steel services, for a total of \$2.4 million.  
16 The cities that we replaced the main in were  
17 Manchester, Concord, and Nashua.

18 Q. And, did part of that replacement include cast iron?

19 A. (Cassetty) Yes, it did.

20 Q. And, you indicated in your summary that the Company, I  
21 think you said it was "1.65 miles" that the Company  
22 actually replaced?

23 A. (Cassetty) Yes.

24 Q. And, again, what was the estimated amount for the

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[WITNESSES: Cassetty~Savoie]

1 program year?

2 A. (Cassetty) The plan amount was 1.87 miles.

3 Q. Why did the Company complete fewer miles?

4 A. (Cassetty) The Company completed fewer miles because of  
5 two projects were not completed in time in the Fiscal  
6 Year 2012.

7 Q. Can you explain what the issues were with those  
8 projects?

9 A. (Cassetty) Yes. There were two projects in Nashua.  
10 One was on Dickerman Street and one was on Walnut  
11 Street, in Nashua. We had permitting issues with that  
12 city. And, by the time we got all the permitting  
13 issues fixed, it was too late in the season for us to  
14 start and complete the project in time. So, we  
15 deferred them until the following year.

16 Q. What were the nature of the permitting issues?

17 A. (Cassetty) It was on the -- I'll have to look at my  
18 notes. It was on the cut-back -- hold on. Sorry. It  
19 was -- I'm sorry, I'm confusing myself. It was because  
20 Nashua -- the City of Nashua required additional  
21 drawing and designs for the plans. And, once we,  
22 because of the delays in it, once we got those designs  
23 done, it was too late in the calendar year.

24 Q. So, those projects will be picked up in the next CIBS

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[WITNESSES: Cassetty~Savoie]

1 year?

2 A. (Cassetty) Yes.

3 Q. Okay. Mr. Savoie, would you please provide a summary  
4 of your testimony.

5 A. (Savoie) Yes. Please refer to Bates Page 44.

6 Attachment C is a computation of the revenue  
7 requirement and the increase required for the Program  
8 Year 2013. We started the calculation with the actual  
9 cost of the mains and services spent, and then subtract  
10 the 500,000 base amount that we're not allowed to  
11 recover as part of the CIBS Program to get to the net  
12 recoverable costs. Then, there's a computation of the  
13 rate base. And, then, a computation of the revenue  
14 requirement from there. So, a year-to -- a  
15 life-to-date computation of the revenue requirement is  
16 1,213,587. And, I subtracted that from that last  
17 year's revenue requirement, the cumulative revenue  
18 requirement of 1,055,920. And, that's how we get an  
19 increase in \$157,667.

20 CMSR. HARRINGTON: Excuse me. Excuse  
21 me. Yes, could you repeat that and give the column and  
22 the line numbers you're referring to, because I can't  
23 follow you. You're going way too fast.

24 MR. SPEIDEL: Yes. If the witness could

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[WITNESSES: Cassetty~Savoie]

1 just slow down a little bit, that would be great.

2 WITNESS SAVOIE: Okay.

3 MR. SPEIDEL: Thank you.

4 **BY THE WITNESS:**

5 A. (Savoie) I'm referring to Column (e), "Actual Fiscal  
6 Year '13".

7 CMSR. HARRINGTON: Okay. And, could you  
8 go over that again then please.

9 WITNESS SAVOIE: Yes.

10 **BY THE WITNESS:**

11 A. (Savoie) Yes. In Column (e), the first number as the  
12 cost of the mains under the CIBS Program for all the  
13 projects that were completed, and that's 2,174,000, the  
14 cost of services were 161,000. We subtracted from that  
15 the base amount that we're not allowed to recover as  
16 part of the Program. So, the net cost under the CIBS  
17 Program we're recovering is 1,836,000 for the year.  
18 The middle portion of that column is the calculation of  
19 the deferred tax reserve. And, the reason the deferred  
20 tax reserve is so high is that the 100 percent of the  
21 costs are currently deductible for taxes. And, the  
22 next section calculates the rate base itself, that's at  
23 6,200,000. Applied to that is the pre-tax weighted  
24 average cost of capital of 11.63 percent. Then, we add

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[WITNESSES: Cassetty~Savoie]

1 the booked depreciation, the property taxes, to come up  
2 with the total revenue requirement.

3 BY MR. KNOWLTON:

4 Q. Mr. Savoie, can you explain, I'm looking at Line 27,  
5 which has the "Year End Rate Base", looking at Column  
6 (e), the \$6.2 million, can you explain how that number  
7 is derived?

8 A. (Savoie) That number is derived by starting with the  
9 cumulative plant in service of 11,184,000, subtracting  
10 the total booked depreciation of 740,000, that arrives  
11 at a net plant of 10,444,000. Subtracted from that are  
12 the deferred tax reserves of \$4.2 million, to come up  
13 with a rate base of \$6.2 million.

14 Q. And, the total plant in service, the \$11 million,  
15 that's just plant in service that relates to CIBS,  
16 correct?

17 A. (Savoie) CIBS only, yes.

18 Q. Would you continue to walk us through the rest of the  
19 schedule.

20 A. (Savoie) Yes. So, the cumulative revenue requirement  
21 is \$1.2 million, subtract from that the previous year's  
22 cumulative revenue requirement of \$1.055 million, is  
23 how we come up with the current year increase in the  
24 revenue requirement of 157,667.

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[WITNESSES: Cassetty~Savoie]

1 Q. Have you done any calculations of what that translates  
2 into, as far as rates for customers?

3 A. (Savoie) Yes. Bates Page 47 shows the bill impact.  
4 Lines 18 through 25, this is the bill impact  
5 computation for a residential customer. So, in the  
6 filing, we continued using the typical usage that we've  
7 been applying over the years. And, using that typical  
8 usage, we come up with a bill impact of 0.08 percent on  
9 a typical customer. I did run the calculations using  
10 the average usage. And, because of the small revenue  
11 requirement increase, the results didn't change  
12 substantially for any of the rate classes.

13 Q. And, looking at this, Bates Page 47, can you just walk  
14 us line-by-line, though, how you do that? And, show  
15 us, for the residential customer, how you derive that  
16 amount?

17 A. (Savoie) Yes. We start with the annual increase in the  
18 revenue requirement of 157,000. Dividing that into the  
19 annual throughput that's estimated for the entire  
20 system gives us a \$0.001 increase in rates overall. We  
21 apply that rate times the 1,250 therms for what's  
22 considered "typical" usage for a residential customer,  
23 that equates to \$1.25 increase on a typical bill. And,  
24 divide that into the typical bill of \$1,477, that's a

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[WITNESSES: Cassetty~Savoie]

1 0.08 percent increase.

2 Q. Do you -- you used the word "typical", and I don't know  
3 whether you recall discussions that we may have had in  
4 hearings or with Staff about the use of that word  
5 "typical", and whether that represents average usage,  
6 you know, of a particular customer class, for example,  
7 the residential class. As the word "typical" is used  
8 here, is it an average that's used?

9 A. (Savoie) No, that's not the average. That's the  
10 typical the Company's been using. I did check with the  
11 Staff, and we were requested to continue using typical,  
12 I'm assuming for this last filing. But I think the  
13 intent that the Commission wants us in the future to  
14 start using an actual average usage, not this typical  
15 that has been used over the years.

16 Q. Do you know or have a sense of what the average is as  
17 compared to typical?

18 A. (Savoie) Yes. The average for the residential, rather  
19 than 1,250, the average for calendar 2012 was 710  
20 therms, without being weather-normalized; with  
21 weather-normalization, it's 788 therms.

22 Q. Based on that average, would you expect the bill  
23 increase to be lower then?

24 A. (Savoie) The percentage increase would be about the

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[WITNESSES: Cassetty~Savoie]

1 same, I think.

2 Q. Okay.

3 A. Because it's such a small increase, it has a minimal  
4 impact.

5 Q. What is the rate impact on the other customer classes?

6 A. (Savoie) The rate impact ranges from 0.08 percent to  
7 0.11 percent.

8 Q. When does the Company request that this rate increase  
9 take effect?

10 A. (Savoie) Effective July 1.

11 Q. On a service rendered basis? Service as of July 1st?

12 A. (Savoie) I'd have to check on that.

13 MR. KNOWLTON: Okay. At this point,  
14 I'll make the witnesses available for cross-examination.

15 CHAIRMAN IGNATIUS: Thank you.

16 Mr. Speidel.

17 MR. SPEIDEL: Yes. Thank you, Chairman  
18 Ignatius. At the present time, I think it would be most  
19 time-effective if I were invite Director Knepper to ask  
20 whatever technical questions he wanted to ask. Is your  
21 microphone working over there or shall I pass mine other  
22 here?

23 MR. KNEPPER: No, it's working.

24 MR. SPEIDEL: Okay. Do you want this

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[WITNESSES: Cassetty~Savoie]

1 longer one maybe? All set? Okay. Thank you.

2 CHAIRMAN IGNATIUS: You may proceed.

3 **CROSS-EXAMINATION**

4 BY MR. KNEPPER:

5 Q. I just have one question concerning the two segments  
6 that weren't completed this year, were deferred, in the  
7 City of Nashua. You said that the City of Nashua  
8 required drawings and designs for those plans, for that  
9 project or those segments. Did they require that for  
10 other segments as well or was it just those two?

11 A. (Cassetty) It's just these two that I'm aware of. I  
12 don't know the answer to that.

13 Q. And, then, the other question I had is, I guess, if you  
14 had gotten the plans earlier completed during the  
15 construction year or something, would the City of  
16 Nashua have given you that permit or were they just  
17 kind of approached late in the construction season?

18 A. (Cassetty) I'm not sure of the exact time that they  
19 were approached, but it was beyond the -- it was beyond  
20 the end of the construction season.

21 MR. KNEPPER: Okay. Thank you.

22 CHAIRMAN IGNATIUS: Other questions from  
23 Staff?

24 MR. SPEIDEL: Just one second, Chairman.

[WITNESSES: Cassetty~Savoie]

1 (Atty. Speidel conferring with Mr.  
2 Knepper.)

3 MR. SPEIDEL: Thank you.

4 BY MR. SPEIDEL:

5 Q. I address this to the panel generally, either member  
6 can respond. In terms of Fiscal Year 2013-14 loading  
7 factors that were applied to the cost estimates  
8 provided to Staff this past spring, April, roughly, for  
9 the different projects, do you know if those loading  
10 factors for the cost estimates were developed by  
11 Liberty or by its service affiliate, National Grid?

12 A. (Cassetty) The cost loadings that were used for the  
13 '13-14 Fiscal Year CIBS Program were the National Grid  
14 loadings.

15 Q. And, is there an expectation by the Company that the  
16 actual loading costs or the loading factors that will  
17 be applied by Liberty will be substantially lower?

18 A. (Cassetty) Those costs -- those loading factors are  
19 under review right now. We expect to have an analysis  
20 done and ready, hopefully, the goal is to have it ready  
21 by the fall. So, we will be reviewing those costs.

22 MR. SPEIDEL: Thank you so much. I  
23 think Staff is satisfied with the questioning. Thank you.

24 CHAIRMAN IGNATIUS: Thank you.

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[WITNESSES: Cassetty~Savoie]

1 Commissioner Harrington.

2 CMSR. HARRINGTON: Yes, just a couple.

3 BY CMSR. HARRINGTON:

4 Q. The projects that were, I guess the best way to just  
5 say it, is they were deferred, the two in Nashua that  
6 you were just discussing. So, when they get deferred  
7 to next year, now, are those going to be two additional  
8 projects to be done next year or will something else be  
9 pushed out and not done till the year after?

10 A. (Cassetty) I think that -- I don't know the answer to  
11 that question.

12 Q. I'm just trying to figure out if we're going to be  
13 having additional work done next year, or if we're  
14 going to simply keep the same amount proposal for next  
15 year, and then defer some other program out to the year  
16 after, so --

17 MR. KNOWLTON: Commissioner Harrington,  
18 Mr. MacDonald, who's the Director of Gas Operations, is  
19 sitting here with me. I think he can answer some of these  
20 questions about those particular Nashua projects and how  
21 it is going to impact, you know, this year's CIBS Program.  
22 If that's something you would like to know about, I would  
23 be glad to swear him in and have him answer that?

24 CMSR. HARRINGTON: Sure, it should just

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[WITNESSES: Cassetty~Savoie]

1 take a second.

2 MR. KNOWLTON: Okay.

3 CHAIRMAN IGNATIUS: That would be fine.

4 CMSR. HARRINGTON: Probably just stay  
5 right where he is then.

6 MR. KNOWLTON: Or, do you want him to go  
7 up to the stand?

8 (Whereupon **Richard G. MacDonald** was duly  
9 sworn by the Court Reporter.)

10 **RICHARD G. MacDONALD, SWORN**

11 **DIRECT EXAMINATION**

12 BY MR. KNOWLTON:

13 Q. Mr. MacDonald, please state your name for the record.

14 A. (MacDonald) Richard G. MacDonald.

15 Q. By whom are you employed?

16 A. (MacDonald) Liberty Energy Utilities New Hampshire  
17 Corporation.

18 Q. What is your position with the Company?

19 A. (MacDonald) Director of Gas Operations?

20 Q. Do you have any responsibilities that relate to the  
21 CIBS Program?

22 A. (MacDonald) General oversight of the execution of that  
23 plan, to assure that, you know, the projects are  
24 completed within the scope, within the prescribed

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 timing.

2 Q. Do you have any knowledge of the two projects in the  
3 City of Nashua that have been inquired about during  
4 this hearing today?

5 A. (MacDonald) I do.

6 Q. And, are you able to, let's start with Mr. Knepper's  
7 question, are you able to answer Mr. Knepper's question  
8 with regard to the timing of the presentation of the  
9 plans to the City and what caused the delay in the  
10 projects?

11 A. (MacDonald) Yeah. The City of Nashua, during the  
12 middle of the summer, imposed or changed its permitting  
13 requirements, as far as providing them with accurate or  
14 permit drawing/design information. We had submitted a  
15 number of projects, all of which were rejected by the  
16 City, including these two projects. And, it ended up  
17 where we had to hire a design firm to go back and  
18 produce better information or better permit drawings, I  
19 call them kind of "hybrid redline drawings", where we  
20 had to include really a lot of their information on the  
21 drawings for the work that we were proposing within  
22 their right-of-way. And, it took us a couple of months  
23 to reprocess all of those projects. And, by the time  
24 we got to the Dickerman Street and the Walnut Street

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 projects, and got through the review with them, it was  
2 early December. And, they said that they would approve  
3 the projects, but really felt that we didn't have  
4 enough time to complete them before the winter set in,  
5 so -- and which we agreed to. So, they were deferred  
6 till, you know, the following year.

7 BY CMSR. HARRINGTON:

8 Q. And, are those going to, they were deferred to next  
9 year, so, I guess my question is, does that add two new  
10 projects to next year's proposal or will you just defer  
11 something else out to the year after that?

12 A. (MacDonald) The Dickerman Street project, I believe, is  
13 in the 2013-2014 CIBS Replacement Program. The other  
14 project, the Walnut Street project, dropped down in  
15 risk, after review of the entire distribution system,  
16 and looking at other segments that were showing more  
17 of, you know, a leak history and/or maintenance risk.  
18 So, it's still on our list to do, but that one may show  
19 up in next year's program.

20 CMSR. HARRINGTON: Okay. All right.

21 Thank you. That addresses that concern.

22 BY CMSR. HARRINGTON:

23 Q. Returning to Page 44, in the rate schedules. I'm just  
24 trying to make sure I understand how this works. The

[WITNESSES: Cassetty~Savoie~MacDonald]

1 bottom line of this is an incremental annual rate  
2 adjustment, which you want to put into your permanent  
3 rate structure of \$157,667. And, the part I'm not  
4 quite following is, some of that is made up of the  
5 costs of replacing these pipe, the one-time cost  
6 associated with replacing the pipe, the labor, the  
7 digging up the road, the repairing the road and so  
8 forth. And, then, I assume some of it is made up of  
9 the increased value of the plant, because now you've  
10 put in better, more expensive, newer pipe. Can you  
11 just sort of comment on how those two things work  
12 together?

13 A. (Savoie) Could you rephrase the question please.

14 Q. Okay. How much of that is, of the increase, is due to  
15 the one-time operating cost of the installation of the  
16 pipe and how much of it is due to the increase in the  
17 overall capital value of the plant that you put into  
18 permanent rates?

19 A. (Savoie) The amount is entirely just the new cost of  
20 that new pipe, less any -- since the inception of the  
21 program, starting with the last rate case. So that  
22 would --

23 Q. So -- excuse me. So, all the labor costs and the  
24 digging up the road and repairing the road and cost of

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 the pipe, they're all just lumped together as a capital  
2 expense and put into the value of the plant?

3 A. (Savoie) Yes. And, so, this is the portion of the cost  
4 under the CIBS Program that would be in our total  
5 plant.

6 Q. Okay.

7 A. (Savoie) Net of any depreciation.

8 Q. And, then, that would stay in, and then each year it  
9 would be depreciated so much?

10 A. (Savoie) Yes.

11 Q. Okay. All right. And, I assume the value of the pipe  
12 that comes out is virtually nothing, right? I mean,  
13 was there any book value to the pipe that was being  
14 replaced?

15 A. (Savoie) Oh, I can't say for certain. I would have to  
16 speculate. I assume some of this pipe may have had  
17 some net book value.

18 Q. And, is that --

19 A. (Savoie) It must be minimal.

20 Q. And, is that subtracted off of the value of the new  
21 pipe?

22 A. (Savoie) I believe it is not.

23 Q. It is not. Okay. On Page 12, and whoever is most  
24 appropriate to answer this, but, on Bates Page 12, and

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 then later on again there's a lot of discussion of this  
2 extra cost especially imposed by Manchester and  
3 Concord. I think it says somewhere here, 91 percent of  
4 the project's footage was installed in these two  
5 municipalities and were subject to these fairly  
6 significant fees. I know there's litigation going on  
7 now about this. But is there -- is there any attempt  
8 by the Company, or is it even possible, for them to,  
9 instead of billing all your customers for these  
10 additional fees, to simply bill the customers in  
11 Concord or in Manchester?

12 A. (Cassetty) Can you ask that question again? I'm sorry.

13 Q. Sure. Let's just -- I'll give you an example, maybe it  
14 will make it a little easier. You do a project in  
15 Concord, and it costs X dollars a foot to put it in.  
16 Or, let's say, if you do a project outside of Concord,  
17 at one of your other places that don't charge these  
18 additional fees, it costs X dollars a foot for  
19 installation. Now, you do the same job in Concord, and  
20 it costs X plus Y dollars per foot, because of these  
21 additional roadway degradation fees that they apply.  
22 Has there been any attempt to say "we're not going to  
23 take that Y cost and spread it over all our customers,  
24 but only apply it to our Concord customers"?

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 A. (Savoie) I have never had any discussions about trying  
2 to have rates specific to any particular municipality  
3 within EnergyNorth. It's not something that I've ever  
4 heard discussed before or considered.

5 Q. Okay. But, if I'm understanding it correctly, it is a  
6 transfer of money from all your non-Concord --  
7 non-Concord and non-Manchester customers to the City of  
8 Concord and Manchester. They get extra fees that other  
9 municipalities don't collect, is that correct?

10 A. (Savoie) That's true. And, in the context of this  
11 program with these degradation fees being included in  
12 the rates we're recovering.

13 Q. And, is there any reason to believe that replacing pipe  
14 in Concord or Manchester is substantially more  
15 expensive than replacing it in the next town over,  
16 other than these fees?

17 A. (Savoie) That it has more value? Intrinsic value?

18 Q. No. I'm saying the cost involved to the Company, less  
19 these fees, if your -- what's a town outside of Concord  
20 that you serve?

21 A. (Savoie) Pembroke.

22 Q. Pembroke. So, if you're going into Pembroke, and your  
23 replacing a certain amount of line, the cost per foot  
24 there, is it approximately the same as it is in

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[WITNESSES: Cassetty~Savoie~MacDonald]

1           Concord, if you disregard these roadway degradation  
2           fees?

3   A.   (Cassetty) Yes, that's true.

4   Q.   Okay.  So, it's just an additional surcharge that the  
5           City of Concord applies to raise revenue for the City  
6           of Concord?

7   A.   (Cassetty) Yes.

8                   CMSR. HARRINGTON:  That's my point.  All  
9           right.  Thank you.  That's what I was trying to get at.  
10          That's all I had.  Thank you.

11                   CHAIRMAN IGNATIUS:  A few more  
12          questions.

13   BY CHAIRMAN IGNATIUS:

14   Q.   Maybe we'll stick with the fees here for a moment.  
15           Looking at Page 34 of the report, there's a chart of  
16           what's been charged or what's been incurred through the  
17           City of Concord and the City of Manchester fees.  And,  
18           am I right that, for Manchester, going from 2011, into  
19           '12, and 2013, you have a very low year for '12, in  
20           terms of fees, and then it balloons right back up and  
21           beyond where it was in 2011.  What was going on there?  
22           Were there just fewer projects in Manchester or was  
23           there some period where they stopped charging those  
24           fees?

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 A. (Cassetty) Well, Fiscal Year 2012, 91 percent of the  
2 jobs for the CIBS Program were in Manchester.

3 Q. Well, then, I would think the "Manchester" column would  
4 be, for Fiscal Year '12, would be very high, rather  
5 than very low.

6 A. (Cassetty) Did I say "Fiscal Year" -- did I say it  
7 wrong? For fiscal year '13, '12-13.

8 Q. Oh, okay. Maybe I heard you wrong.

9 A. (Cassetty) Okay.

10 Q. So, this is just showing that, in '11, there was a lot  
11 of work in Manchester, in 2012, not so much, and, in  
12 '13, a lot again?

13 A. (Cassetty) Yes. There was 7,000 -- over 7,000 feet in  
14 Manchester done in Fiscal Year '13.

15 Q. Okay. And, then, in Concord, it sort of does the  
16 opposite, and, in '13, it drops way down. But is that  
17 because of this agreement not to require payment of the  
18 fees and do a bond instead?

19 A. (Cassetty) We pay the Concord fees. And, again, the  
20 jobs for Fiscal Year '13, there was not -- not as many  
21 jobs as there were in other cities. Only 620 feet --  
22 625 feet installed in Concord.

23 Q. Okay. And, I think I misstated, it was -- actually,  
24 I'm looking back, at the top of that page it says

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 "Manchester agreed to allow Liberty to refrain from  
2 paying the fees, subject to the issuance of bonds."  
3 So, it wasn't a Concord situation at all.

4 So, how does that work? And, if you're  
5 not the right witnesses for this, that's fine. We can  
6 turn to Mr. MacDonald or Ms. Knowlton on the sort of  
7 status of litigation and how the bonds fit in with the  
8 fees, but if either of you know. I read Page 34, and  
9 really didn't follow what was going on, in terms of  
10 bonds, and then the refund at the end of the  
11 litigation.

12 A. (Savoie) Well, whether we pay the fees or not, we've  
13 included the costs, some are accrued and some are paid.  
14 And, so, all the costs are shown here. And, I'm not an  
15 attorney, so, I don't think I could answer the latter  
16 part of your question.

17 Q. All right. But that's helpful. You're including, in  
18 your charges to ratepayers, the full amount of the fees  
19 that the cities have required, even though, in some  
20 cases, you've had another mechanism where you haven't  
21 had to actually hand over those fees to the city,  
22 correct?

23 A. (Savoie) Yes.

24 A. (Cassetty) Yes.



[WITNESSES: Cassetty~Savoie~MacDonald]

1 Q. So, you're kind of holding some of that money, awaiting  
2 the end of the litigation?

3 A. (Cassetty) Yes.

4 Q. And, why is it done that way? And, it may be through  
5 Commission order, for all I know, I just honestly don't  
6 remember. Why take it now from ratepayers and hold it,  
7 rather than not take it all from ratepayers and see  
8 where it -- how it develops?

9 A. (Savoie) I don't have the history, consistent with how  
10 it was treated the prior year. And, all I can offer is  
11 an accountant's point of view, where, whether you pay  
12 or not, if you incurred the fees, you accrue it on the  
13 books.

14 Q. And, then, if there's a decision through the courts  
15 that that fee structure were to change and be reduced,  
16 what would you do on the books to account for that?

17 A. (Savoie) Oh. I'd have to speculate how they're showing  
18 on the books. I imagine they have an account showing  
19 that they owe this money, and seeing there is a  
20 liability, so they would reduce that liability and  
21 reduce the costs. That's what I would do. And, then,  
22 when we do a revenue requirement, after we know that,  
23 we would then build it into the revenue requirement  
24 calculation.

[WITNESSES: Cassetty~Savoie~MacDonald]

1 Q. All right. Is there any expectation of when there  
2 might be a resolution of the litigation or any working  
3 number -- plan that you use as you book these things?

4 A. (Savoie) I can't speak to the timing of the resolution.

5 Q. But it says in the report that it's "based on an  
6 assumption that [it] will be conclusively resolved  
7 before the filing of the FY 2014 revenue requirement."  
8 Is that just a working assumption, because you need to  
9 make some sort of assumption, or is there actually an  
10 expectation that it would be resolved?

11 A. (Savoie) Could you point to that language?

12 Q. Sure. Page 34 of the report -- it's actually Bates  
13 Page 34, which is Page 6 of the report, if you have  
14 them separate. And, it's the bottom paragraph, in the  
15 middle of that bottom paragraph. And, this is about  
16 the refund to customers of \$81,000.

17 A. (Savoie) Oh, I see. I think the intent of that wasn't  
18 to infer that we're going to resolve during that time  
19 period, just, if we were to resolve during that time  
20 period, here's the dollar impact that we would return  
21 to customers. So, it wasn't intended to indicate that  
22 we think we'll settle the case in that time frame.

23 Q. Okay. So, it's just trying to quantify how much money  
24 we're talking about here?

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 A. (Savoie) Yes.

2 MR. KNOWLTON: And, I don't want to  
3 testify, but I'd be glad to give the Commission, you know,  
4 an update from the lawyer's perspective on the litigation  
5 and the timing. The cases -- the case in Manchester has  
6 been stayed for quite some time. The case in Concord has  
7 been the one that's been more active. And, there was --  
8 the Company won at the Superior Court level, it was  
9 appealed to the Supreme Court, the New Hampshire Supreme  
10 Court. And, last summer, actually, very shortly after the  
11 close on the sale of the Company, the Supreme Court issued  
12 an order essentially overturning the lower court's  
13 decision and remanding an issue back to the Superior  
14 Court. And, there has been nothing that has happened on  
15 either of those cases actually until quite recently. We  
16 just got structuring conference orders, or notices of a  
17 scheduling conference. I believe, and that will occur in  
18 early July, for both the Manchester and the Concord cases.  
19 So, there isn't even a schedule for the cases to proceed  
20 at the Superior Court. But I expect that we would have  
21 one for each of those cases, you know, shortly after that  
22 court appearance. And, you know, we have asked Manchester  
23 to continue to stay that case. They have come back and  
24 said that they have an interest in combining the case and

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 consolidating it with the Concord case. That hasn't been  
2 resolved yet, whether that will happen. But I do expect  
3 that the litigation will become active in the next couple  
4 of months. And, whether we have a conclusion by the end  
5 of this year, to me, seems doubtful, given what's involved  
6 in the cases. But I would certainly expect that there  
7 would be, you know, an outcome in the Superior Court  
8 sometime in calendar year 2014. And, where it goes from  
9 there, I don't know, you know, in terms of whether there  
10 would be another appeal or not. But, I mean, they're  
11 cases that the Company is very vigorously defending.

12 CHAIRMAN IGNATIUS: And, the -- on  
13 Page 34, that bottom paragraph, Mr. Savoie sort of added a  
14 little extra thought to it. The sentence that begins  
15 "Upon the outcome of the litigation, the Company will  
16 refund the revenue".

17 MR. KNOWLTON: That's a presumptive  
18 statement.

19 CHAIRMAN IGNATIUS: Meaning, if it's  
20 resolved in the Company's point of view, and that all the  
21 fees are dropped, that would then be a refund that would  
22 be required?

23 MR. KNOWLTON: That's correct. Only if  
24 we prevail.

[WITNESSES: Cassetty~Savoie~MacDonald]

1 CHAIRMAN IGNATIUS: All right. Thank  
2 you for that. A couple more questions to the two of you.

3 BY CHAIRMAN IGNATIUS:

4 Q. It looks as though, when you're out in the field, you  
5 sometimes discover things are better than you had  
6 expected, and that, on Page 10 of your testimony, it  
7 says that "13 fewer bare steel services required  
8 replacement", that's at Line 15.

9 A. (Cassetty) Uh-huh.

10 Q. Is it fairly common that you sort of make your best  
11 guess at what you're going to find, but, when you're in  
12 there, some of it's -- some of it's a little better  
13 than you expected?

14 A. (Cassetty) That's right. That's right. We base all  
15 the assumptions on the records that we have. And, over  
16 the course of the year, leaks are sometimes fixed  
17 before the job gets started. So, once the program is  
18 complete, and we add up all the services, sometimes  
19 there's less than we anticipated.

20 Q. And, do you find the opposite as well? You get in  
21 there and it's worse than you expected, and it's more  
22 extensive work than you had predicted?

23 A. (Cassetty) That can happen.

24 Q. How does it tend to balance out overall?

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 A. (Cassetty) Well, as you can see, we, with this, with  
2 Fiscal Year '13, we were pretty close in our estimate  
3 in what we thought we were going to replace, we were  
4 only 13 off. So, they balance each other out over the  
5 course of the year.

6 Q. And, when you get to the kinds of conditions that the  
7 photographs show and the box probably includes, looking  
8 at Page 36 and 37, the photographs in the report?

9 A. (Cassetty) Uh-huh.

10 Q. When you have actual holes in the pipes like that,  
11 where it's worn all the way through, does that mean  
12 that those are gas leaks into the ground at that point?

13 A. (Cassetty) Yes. There are, yes.

14 Q. Do you know that those are going to be areas to target  
15 your attention on, because you can detect those leaks?  
16 Or are you maybe not even aware that it's worn through  
17 to the point where you actually have gaping holes in  
18 the pipe?

19 A. (Cassetty) They choose the pipes to replace based on  
20 the leakage rates and the material, and the year the  
21 material was installed, and they do -- the Engineering  
22 Department does an analysis using all those factors.

23 Q. As a non-gas person, these photographs scare the  
24 daylights out of me. Are they -- is it as scary

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 looking as it -- is it as bad as it looks to be?

2 A. (Cassetty) Well, these, the pipes that we, actually, we  
3 have here, I mean, in the course of cleaning the pipes,  
4 it might make the hole appear -- look now bigger than  
5 it was initially. But, yes, those, the pitting that  
6 you see on Page 38 and 39, that's pretty true, that  
7 shows exactly what was in there, in the ground at the  
8 time that the pipe was excavated.

9 Q. The pitting doesn't look so bad as the big holes on 36  
10 and 37.

11 A. (Cassetty) I know.

12 Q. So, --

13 A. (Cassetty) As it gets out and they get cleaned off, the  
14 holes get bigger when we clean off the pipe to show.  
15 But, when it's taken out the ground, it does have --  
16 the holes are clearly visible.

17 Q. And, what's the -- I'm sure it's in here somewhere and  
18 I'm just not finding it. What's the timetable, at the  
19 rate you're going, for replacement of all of the bare  
20 steel?

21 A. (Cassetty) Of all of it?

22 Q. Do you have a target date or a point at which you will?

23 A. (Cassetty) Actually, we just -- Mark and I were just  
24 talking about that before. Give me one second.

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 A. (Savoie) Bates Page 47.

2 A. (Cassetty) Yes. There's 123.4 miles remaining of cast  
3 iron and bare steel.

4 Q. Show me where that is.

5 A. (Cassetty) That's on Bates Page 47.

6 A. (Savoie) Column (f).

7 A. (Cassetty) Column (f).

8 Q. Okay. Line 13, "123.4"?

9 A. (Savoie) That's estimated after the next program year.

10 CMSR. HARRINGTON: It's going to be a  
11 while.

12 BY CHAIRMAN IGNATIUS:

13 Q. So, do you have an estimate of when you'll be at a  
14 completion date?

15 A. (Cassetty) I don't know that right now, no.

16 CHAIRMAN IGNATIUS: And, Mr. MacDonald,  
17 do you?

18 WITNESS MacDONALD: Yeah, the program's  
19 based on risk and performance, and, you know, current  
20 history. It's a rolling, you know, program. You know,  
21 it's -- sometimes we get more leaks on bare steel on a  
22 given year due to weather conditions, sometimes the cast  
23 iron lines, you know, rise up on a higher risk. I believe  
24 your question was, "do we have like a definitive timeline

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[WITNESSES: Cassetty~Savoie~MacDonald]

1       when we're going to have all this out of the ground?" Was  
2       that your question?

3                   CHAIRMAN IGNATIUS: Yes.

4                   WITNESS MacDONALD: Yeah. No, we don't.  
5       We don't have a definitive timeline at this point, no.  
6       Right now, that's based on a, you know, a two mile, plus  
7       or minus, you know, a couple of tenths of a mile program.  
8       We'd certainly like to do more than that, yes.

9                   CHAIRMAN IGNATIUS: Well, I ask the  
10      question in part because we just got back from the  
11      regional meeting of the New England Public Utility  
12      Commissioners. And, at lunch, I overheard people from two  
13      other states talking about their cast iron replacement  
14      programs, and they were throwing out dates, completion  
15      dates, and when they were going to be done. And, I  
16      thought, "I don't know what our date is in New Hampshire."  
17      It sounds like we don't have a date in New Hampshire?

18                  WITNESS MacDONALD: No, we don't. And,  
19      I think some of those dates, you know, because I used to  
20      work in Massachusetts and supported one of those programs,  
21      I believe, in the DPU order regarding those programs,  
22      there were prescribed dates in those orders that the  
23      Company had to comply with, as far -- insofar as, you  
24      know, a target to get this older pipe out of the ground.

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 CHAIRMAN IGNATIUS: Too many little  
2 stickies here. I think that's the end of my questions.  
3 Thank you. Commissioner Harrington.

4 BY CMSR. HARRINGTON:

5 Q. Just to follow up on a couple things on the pipes on  
6 Pages 36 and 37. These pictures look like, as you  
7 said, the pipes have been cleaned up pretty  
8 significantly since they come out of the ground. So,  
9 one thing. Second, what's the operating pressure of  
10 these pipes? What's the working pressure?

11 A. (Cassetty) The one with the -- for lack of a better way  
12 to describe it, the one with the holes in it, that was  
13 on --

14 Q. Excuse me. They all have holes in them.

15 A. (Cassetty) Well, these --

16 WITNESS MacDONALD: The one with the  
17 bigger holes.

18 **BY THE WITNESS:**

19 A. (Cassetty) These three pictures, there's different  
20 views of them.

21 BY CMSR. HARRINGTON:

22 Q. Okay.

23 A. (Cassetty) That was from Lemon Street, in Nashua. That  
24 was two-inch low pressure.

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 Q. Okay. So, the pressure is at 2 inches. So, it's very  
2 low pressure gas.

3 A. (Cassetty) Low pressure.

4 Q. Now, this is also -- would be, I assume, packed in some  
5 type of medium around it, sand or something like that?

6 A. (Cassetty) Yes.

7 Q. Okay. So, what I'm trying to get at is, would you  
8 expect a lot of leakage coming out of something like  
9 this, so it would create a safety hazard?

10 A. (Cassetty) That's why we're replacing them.

11 Q. No, but, at the time you replace the pipe, was it a  
12 safety hazard? If you hadn't replaced it, if someone  
13 walked by and crushed a cigarette out on the sidewalk  
14 over it, would he have blown up?

15 A. (Cassetty) No.

16 Q. Okay. That's what I'm trying to get across. And, that  
17 is because?

18 A. (Cassetty) I don't know why that would be.

19 WITNESS MacDONALD: Just from my 35  
20 years of experience, what happens, a lot of it has to do  
21 with soil types and moisture content. You know, the pipes  
22 that you see in the pictures or the pipes that are behind  
23 me, sometimes on a heavy clay, wet soil, you know, that  
24 pipe or that dirt or the backfill around the pipe is

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 compact so much that, you know, whatever iron oxide, you  
2 know, is left, sometimes propense -- the soil, you know,  
3 compaction of the soil can prevent the leak from  
4 appearing, even though the pipe may have holes in it, just  
5 due to the nature, you know, of the soil conditions. In  
6 some cases, where we have just, you know, a nice clean,  
7 sandy backfill, that would be the pipe that you see that's  
8 in, although it's got some major pitting, you know, it  
9 looks better than the other section. A lot of it has to  
10 do with soil conditions, moisture content. But,  
11 certainly, if that pipe behind me, the one with the large  
12 holes in it, you know, was leaking, we would pick it up on  
13 our Leakage Surveillance Programs and probably would have,  
14 you know, removed that, you know, immediately. I suspect  
15 that, you know, the soil conditions out on that street or  
16 that location were such that, you know, it held back, you  
17 know, some of that leakage process.

18 CMSR. HARRINGTON: And, your Leakage  
19 Surveillance Program, is that like a sniffer program?

20 WITNESS MacDONALD: Yes, it is.

21 CMSR. HARRINGTON: Okay. And, just one  
22 other question. Given the cost associated with going out  
23 and digging these up and everything, and the fact that it  
24 could be a long, long time before you get back to digging

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[WITNESSES: Cassetty~Savoie~MacDonald]

1 up there, based on this, you know, this two miles a year  
2 type thing, why, if you get to the point of digging it,  
3 maybe I'm interpreting this wrong, but it sounds like you  
4 got to the point of, at least in 13 cases, where you got  
5 down to the bare steel pipe, you looked at it and said  
6 "Boy, it's in pretty good shape. Let's just leave it  
7 alone." Am I misinterpreting that?

8 WITNESS MacDONALD: Well, you know,  
9 there's back, you know, there's behind-the-scenes, you  
10 know, analysis and review. And, you know, field  
11 conditions are certainly, you know, noted and brought into  
12 the equation of, you know, making these pipe replacement  
13 decisions.

14 CMSR. HARRINGTON: Well, maybe what was  
15 the page, you had a question on it, you said there was 13,  
16 13 times when they didn't replace a pipe? I'm trying to  
17 find that.

18 WITNESS CASSETTY: It was 13 services,  
19 13 fewer services.

20 WITNESS MacDONALD: Oh, the 13 services?

21 CMSR. HARRINGTON: It says "A total of  
22 13 fewer bare steel services required replacement".

23 WITNESS MacDONALD: Some of that's  
24 probably a records issue. And, some of it is we were

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[WITNESSES: Cassetty~Savoie~MacDonald]

1       probably out there a year prior or a couple years prior or  
2       recently and replaced the service.

3                   CMSR. HARRINGTON:   Okay.

4                   WITNESS MacDONALD:   When the engineer  
5       looked at the records, you know, the records indicated  
6       they were bare steel.  When we got out to the field, you  
7       know, we found something different.

8                   CMSR. HARRINGTON:   Okay.  My concern is  
9       I just wanted to make sure you weren't going out to the  
10      field and digging it up, finding bare steel, and saying  
11      "well, that's in pretty good shape.  Let's leave it and be  
12      back in one hundred years."

13                  WITNESS MacDONALD:   No, no, no.

14                  CMSR. HARRINGTON:   Okay.  Thank you.  
15      That makes me feel better.  That's all I had.  Thank you.

16                  WITNESS MacDONALD:   Okay.

17                  CHAIRMAN IGNATIUS:   Any redirect,  
18      Ms. Knowlton?

19                  MR. KNOWLTON:    I have none.

20                  CHAIRMAN IGNATIUS:   Okay.  Then, the  
21      witnesses are excused.  Thank you very much.  That was  
22      very helpful.

23                           Any objection to striking the  
24      identification on Exhibit 1?

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1 (No verbal response)

2 CHAIRMAN IGNATIUS: Seeing none, we'll  
3 do that. Is there anything to take up prior to closings?

4 MR. SPEIDEL: Yes, Commissioners. Staff  
5 would like to call a witness panel of Assistant Director  
6 Frink and Director Knepper, if possible?

7 CHAIRMAN IGNATIUS: Has that been  
8 discussed? We don't have any prefiled testimony. Was  
9 anything filed?

10 MR. SPEIDEL: No. But there is a matter  
11 that would be worthy of the Commissioners attention  
12 related to a tariff issue. And, we want --

13 CHAIRMAN IGNATIUS: Any objection,  
14 Ms. Knowlton?

15 MR. KNOWLTON: It's -- I'm not sure  
16 where to begin. I mean, I guess what I'd like to do,  
17 before we have witnesses sworn in, is I know what  
18 Mr. Speidel is seeking to accomplish, and I have a  
19 position on that. I mean, shall we flesh that out? I  
20 mean, you know, maybe he can make a representation about  
21 what it is that he'd like to do. My view is that it's not  
22 necessary to put witnesses on the stand.

23 And, maybe I'll just cut to the chase.  
24 You know, my understanding is that the Staff would like to

1 make a recommendation to the Commission that it open an  
2 investigative docket with regard to a provision in the  
3 Company's tariff and how it's being applied regarding main  
4 extensions and adding customers onto the system. It was  
5 an issue that apparently arose in an informal discussion  
6 with Staff on May 23rd, and came up as a result of some  
7 questions that were asked in discovery in this case that  
8 really don't, to me, relate to the CIBS docket. They're,  
9 you know, about the Company's growth and expansion. The  
10 Company, you know, indicated this to Staff.

11 We don't contest that the Commission can  
12 open a docket up at any time on a subject matter that it  
13 chooses. I don't think there's a need to lay a foundation  
14 in this CIBS docket to do that. We understand that that  
15 is their intention, and we'll cooperate fully, you know,  
16 in that docket, once it's opened. So, you know, my view  
17 is that we don't have to put witnesses on the stand today  
18 to do that. The Commission can order that docket to be  
19 opened and we'll participate in it.

20 CHAIRMAN IGNATIUS: Mr. Speidel, is  
21 there a reason that, in your view, the Commission  
22 shouldn't be acting on the CIBS filing until an  
23 investigation has taken place?

24 MR. SPEIDEL: No, Chairman. The



1 Commission, in the Northern interstate rate allocation  
2 matter, accepted some testimony regarding the need for an  
3 investigation within the original cost of gas docket in  
4 which the error that led to the investigation and to the  
5 refund of monies to customers in New Hampshire of the  
6 Northern gas company within the context of that cost of  
7 gas docket, just for administrative convenience.

8 Staff has no problem with filing a  
9 separate letter requesting the opening of investigation  
10 and filing it on the record, and sending it to the  
11 attention of the Executive Director and requesting  
12 Commission action. In such a letter, we would be happy to  
13 append the exhibit that we were going to introduce today,  
14 namely a response to a data request within the context of  
15 the CIBS filing, and, also, for informational purposes, an  
16 extract from the tariff of the Company.

17 So, we could do things different ways.  
18 We also were thinking that maybe a couple of clarifying  
19 questions could be asked of Mr. Knepper and Mr. Frink  
20 regarding the operation of the CIBS Program, that could be  
21 useful to the Commissioners. But, if not, so be it.  
22 We're flexible in that regard. So, --

23 CHAIRMAN IGNATIUS: All right. One  
24 moment.

1 (Chairman Ignatius and Commissioner  
2 Harrington conferring.)

3 CHAIRMAN IGNATIUS: All right. I think,  
4 on the issue of the recommendation that an investigative  
5 docket be opened, we'd rather you do it separately, file a  
6 letter, post it to the Web, that people can respond to,  
7 and we'll not do it as part of this proceeding right now.

8 On the question of whether any Staff  
9 witness should testify right now directly related to the  
10 CIBS Program, is there -- is this something that was  
11 shared with the Company in advance? And, if not, is there  
12 any opposition from the Company to Staff taking the stand?

13 MR. KNOWLTON: I'm not sure what they're  
14 going to testify to. I mean, the only discussion that we  
15 had was relating to the investigative matters. So, I'd  
16 have to hear from Staff about that.

17 MR. SPEIDEL: Yes. I can make a little  
18 miniature offer of proof.

19 CHAIRMAN IGNATIUS: Thank you.

20 MR. SPEIDEL: It would be for Mr. Frink  
21 and Knepper to answer the following questions, regarding  
22 whether prefiled testimony was submitted in this matter,  
23 and then Mr. Frink would explain that, due to the  
24 compressed nature of the schedule, that no testimony was

1 filed. Does Staff support the proposed delivery rate  
2 increase for the CIBS Program? The answer is in the  
3 affirmative, most likely.

4 Leaving aside the issues related to the  
5 investigation, I think there were a couple things that  
6 Mr. Frink thought would be useful, regarding carrying  
7 charges on the road degradation fees that have been unpaid  
8 to the cities. Let me see. And, there's just a couple of  
9 other very minor issues. The use of depreciation in the  
10 calculations of the CIBS rate elements, little technical  
11 things like that. It wouldn't be very far-ranging.

12 But, again, if the Commission doesn't  
13 find it useful or advisable, we can defer to your judgment  
14 on that.

15 CHAIRMAN IGNATIUS: Well, I know that  
16 this moves very quickly. There wasn't a full discovery  
17 schedule and testimony schedule in this case. So, the  
18 fact that it wasn't prefiled, it doesn't really trouble  
19 me. But I do think we try to encourage people to work  
20 with each other and not be caught by surprise. And, I  
21 guess two thoughts. I wonder why those areas weren't  
22 developed through cross-examination, to bring out issues  
23 regarding depreciation or carrying charges, which is often  
24 an easy way to get your point across without having to

1 have a witness on the stand? And, secondly, I think it's  
2 fair to opposing counsel to give them some warning before  
3 you get into the hearing that you're thinking of putting  
4 someone on the stand, even in a compressed docket.

5 So, I guess, Ms. Knowlton, do you have a  
6 concern about Staff witnesses this afternoon? And, if it  
7 would be helpful, we could take a recess to talk it over.  
8 The areas to be covered sound like they're fairly limited  
9 and not very controversial. But I don't like doing things  
10 by surprise, ambush here. So, if you want to take a short  
11 break to go over that, I'm happy to accommodate that?

12 MR. KNOWLTON: I think, if we took a few  
13 minutes and I could just chat with Staff and understand  
14 better what they want to ask about, and then we can come  
15 back and quickly resolve this.

16 CHAIRMAN IGNATIUS: All right. Why  
17 don't we take, it's 2:15 now, why don't we resume at 2:30.

18 (Recess taken at 2:13 p.m. and the  
19 hearing resumed at 2:32 p.m.)

20 CHAIRMAN IGNATIUS: All right. We're  
21 back after a 15-minute break. And, what's our plan?

22 MR. KNOWLTON: The Company conferred  
23 with the Staff on the break. And, my understanding is  
24 that Mr. Knepper would like to take the stand, and that

1       there's three issues that he would like to address. And,  
2       that Mr. Frink would like to take the stand, and there's  
3       two issues that he would address.

4                       And, some of the issues that the Staff  
5       would like to address, I think, you know, were issues that  
6       could have involved the cross-examination of the Company  
7       witnesses, and it may be that some of the questions that  
8       they had for cross-examination arose after some of the  
9       questions from the Bench. And, I think, you know, and  
10      I've offered to make the Company witnesses available for  
11      further cross-examination, if the Staff would like to do  
12      that. I don't want to get in a dispute with the Staff  
13      over this. If they feel strongly that they need to take  
14      the stand to address these issues, I'm not going to object  
15      to it. But, I think what would be helpful, at least from  
16      my perspective, is to iron out what the process is, at  
17      least with regard to the CIBS docket, because, and I don't  
18      want to -- Staff can speak for themselves, but they seemed  
19      quite surprised that there was a concern about them taking  
20      the stand. That it's been represented to me that that  
21      historically has been the practice, given the short  
22      timeframe in the docket, with the filing on May 15th, and  
23      a hearing, you know, about a month later, with the order  
24      in time for July effective rates, that that's what they

1 have done in the past. I have not done CIBS dockets in  
2 the past, and I'm sure what they're telling me is true.  
3 But, you know, I just think, you know, for all of our  
4 benefit, it would be helpful to understand, and what the  
5 Commission wants, how we proceed with these kinds of  
6 things. Because, you know, I -- you know, I'm not sure  
7 I've had something quite like this circumstance before.  
8 And, you know, we want to be cooperative, but, you know,  
9 we also want to have some sense of, you know, where this  
10 is all going.

11 CHAIRMAN IGNATIUS: I can tell you,  
12 there have been cases that do move really quickly and  
13 there's no time for prefiling, where we have allowed Staff  
14 to testify. I think it's, even in those cases, though, I  
15 think it's always a good idea to consult with one another,  
16 so that it's clear where you're heading. And, if there  
17 are issues on scope that opposing counsel thinks the  
18 questioning may exceed or an inability to really rebut  
19 certain information without recalling people, the more  
20 advance warning and discussion the better.

21 But, Mr. Speidel, do you want to respond  
22 to any of Ms. Knowlton's comments or explain the areas  
23 that Mr. Knepper and Mr. Frink will want to address?

24 MR. SPEIDEL: Yes. I think I can just

1 give a little overview of Staff's position coming into the  
2 hearing today, in terms of what we imagined the mechanics  
3 of the hearing would be, and, in particular, the role of  
4 additional Staff oral testimony, even though there was no  
5 prefiled testimony on the record to work off of in this  
6 sort of proceeding.

7           What we have is, yes, a compressed  
8 review period. And, in particular, Director Knepper does  
9 a great deal of work on an ongoing, rolling basis, on the  
10 fly, at all stages of the fiscal year, to examine  
11 projects, inquire about the status of projects, and to  
12 make sure that projects are on time and on budget. And,  
13 Staff's role in its oral testimony in past CIBS hearings  
14 has been to fill in the holes left in the record during  
15 the course of the oral proceeding. In particular, we, on  
16 the one hand, notice that the witnesses, when questions  
17 were asked about a number of issues that Staff was  
18 interested in, such as the road degradation fees, the  
19 witnesses either had limited or, very frankly, no  
20 knowledge of certain aspects of those issues. So,  
21 cross-examination would have been of very limited value  
22 vis-a-vis a witness that just doesn't know the answer to  
23 that up front.

24           Another dynamic that's very common is

1       that matters are raised in bench questioning that Staff  
2       might have a little bit of insight in, and might be useful  
3       to the Commissioners in making a determination on the  
4       filing, and for general record purposes.

5               In general terms, we never intend to  
6       surprise the Company or engage in kind of an inquisition  
7       against the Company in these CIBS proceedings. We made it  
8       very clear in advance that Staff's position was supportive  
9       of the CIBS filing. But there's always technical issues  
10      to explore, there's always matters that are worthy of  
11      further consideration. And, we would hope that the  
12      Commissioners would be interested in hearing about Staff's  
13      perspective on some of these matters. It's never about  
14      whether the CIBS filing will be approved or not approved.  
15      We always make it clear about that. I mean, certainly, if  
16      we were taking a hostile position in this filing, and the  
17      Company were to hear, at the moment of hearing, that Staff  
18      opposes the CIBS filing or Staff would file a  
19      recommendation to have the CIBS Program revoked or  
20      discontinued, that would be pretty serious. And, I agree,  
21      that would be a breach of professional courtesy and unfair  
22      on a due process level. But we've made it clear, just  
23      about from the beginning of this filing, that, "yes, we  
24      support the Company's filing, but can you give us a little



1 bit more information about this." Line extensions, for  
2 instance, how you charge your customers for line  
3 extensions, when you're doing CIBS work and the streets  
4 are open? Or, how about this technical issue or this  
5 technical issue? And, if you have questions, we have  
6 information right here from our experts available for your  
7 purposes, if the Company's witnesses didn't happen to know  
8 exactly what the answer was.

9 So, it's kind of a flexible thing. We  
10 didn't mean to have it become a donnybrook of any sort.  
11 Again, the investigation request will come down the pike  
12 and will be filed. We were sort of following along the  
13 Northern pattern, but I guess that pattern is not  
14 operative anymore, and we recognize that. But, you know,  
15 we're happy to ask questions of Mr. Savoie and  
16 Ms. Cassetty. It would be ideal if we could have the  
17 ability, for instance, if the Company wanted to  
18 cross-examine our Staff witnesses, that would be a  
19 possibility.

20 But, one way or the other, if we can't  
21 fill in the picture to our satisfaction, it becomes  
22 increasingly difficult for Staff to take a definitive  
23 position about some of the details of these programs, if  
24 we can't make ourselves heard about them. So, that's -- I

1 think that about covers it.

2 CHAIRMAN IGNATIUS: Thank you.

3 MR. KNOWLTON: Is there a way to build  
4 into the schedule, for the future, you know, I don't know  
5 whether it's, you know, in the form of, you know, brief  
6 testimony or a letter from Staff? I mean, I just -- I  
7 mean, it was, you know, what Mr. Speidel said as to the  
8 rate is accurate. I was told that, you know, that  
9 Mr. Frink didn't have any objection to the rate. I was  
10 told that, you know, I didn't know about what  
11 Mr. Knepper's position on all of this was. That part of  
12 it is new to me that I found out on the break. But it  
13 just seems like, you know, as to the future, you know,  
14 some way for us to know, it would be helpful. And, maybe  
15 it's just counsel conferring. And, you know, certainly,  
16 we can -- I can make sure I reach out and do that on my  
17 end.

18 But, you know, if there's areas that  
19 they feel like, you know, the filing wasn't, you know, as  
20 detailed as it could be, and we could talk about that in  
21 advance and certainly provide more information there,  
22 through supplements or otherwise.

23 CHAIRMAN IGNATIUS: All right.

24 Certainly, consultation is always a good idea, and you

1 don't need it written in a procedural order from us to do  
2 that. And, I'd encourage people to do it. And, whether  
3 it's prior to a hearing or in the midst of a hearing, to  
4 ask to take a break and consult on something is always a  
5 good idea, if it helps give people warning or iron out any  
6 kind of procedural issues among the parties.

7 As to the request for Mr. Knepper and  
8 Mr. Frink to testify, let me take a moment please.

9 (Chairman Ignatius and Commissioner  
10 Harrington conferring.)

11 CHAIRMAN IGNATIUS: All right. We'll  
12 allow the two Staff witnesses to testify, but with a  
13 really strong caution to stay focused on the areas that  
14 we've heard -- been told are to be explored. It sounds a  
15 little bigger than, Mr. Speidel, you had said before the  
16 break, that it addressed carrying charges and use of  
17 depreciation in calculating rate elements. I take it  
18 those are Mr. Frink's two issues?

19 MR. SPEIDEL: Yes. Those are  
20 Mr. Frink's issues.

21 CHAIRMAN IGNATIUS: What are Mr.  
22 Knepper's three issues?

23 MR. SPEIDEL: Mr. Knepper, perhaps you  
24 can speak for yourself a little bit clearer.

1                   MR. KNEPPER: Typically, all I've done  
2     in the past is give a historical perspective of the CIBS  
3     Program. If the Commissioners don't need that, and I  
4     don't have to give that. That kind of takes this year's  
5     numbers, puts them in perspective of what's been going on.  
6     And, the other thing in the past is Attachment B is a  
7     rather complex spreadsheet that has a lot of information  
8     in there, and usually doesn't get -- it's the basis for  
9     all of the financial numbers that you're looking at. I  
10    usually do a review of that. And, then, lastly, the thing  
11    I typically talk about is whether they're giving the field  
12    reports as they're required to do, and, you know, the  
13    conditions of the pipes that we're seeing. Why we ask for  
14    some and why we don't. But, if it's not helpful for  
15    filling it in, we don't need to.

16                  CHAIRMAN IGNATIUS: Well, information is  
17    always helpful. So, it's hard to say "no" to that. But  
18    not catching people with no ability to respond is -- can  
19    be worrisome. And, it may be that you've done this in  
20    prior cases without the -- without any advance discussion  
21    with the companies. I guess I had thought that that was  
22    more by agreement than by surprise.

23                   Why don't we go ahead and have the two  
24    of you testify, address the areas that are identified,

[WITNESSES: Frink~Knepper]

1 and, Mr. Knepper, in terms of the historical perspective.  
2 I think some context, limited context, is a good idea, but  
3 really fairly limited. So, Mr. Frink and Mr. Knepper.

4 (Whereupon **Stephen P. Frink** and  
5 **Randall Knepper** were duly sworn by the  
6 Court Reporter.)

7 **STEPHEN P. FRINK, SWORN**

8 **RANDALL KNEPPER, SWORN**

9 **DIRECT EXAMINATION**

10 BY MR. SPEIDEL:

11 Q. Could you please, gentlemen, state your names and  
12 places of business.

13 A. (Knepper) I'm Randall Knepper. I'm the Director of  
14 Safety. And, I work here at 21 South Fruit Street, for  
15 the Commission.

16 A. (Frink) Stephen Frink, the Assistant Director of the  
17 Gas/Water Division, here at the Commission, at 21 South  
18 Fruit Street.

19 Q. Mr. Frink, has Staff submitted prefiled testimony in  
20 this matter?

21 A. (Frink) No, it has not.

22 Q. Do you happen to know why that is?

23 A. (Frink) This program is generally very specific. It's  
24 limited, it's a step adjustment, essentially. And,

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[WITNESSES: Frink~Knepper]

1 normally, we make a recommendation, either through oral  
2 testimony or a closing statement. When you have 45  
3 days between when the filing comes in and when you have  
4 to have an effective rate, it really doesn't allow for  
5 full discovery and written testimony and an elongated  
6 process. The utility has always been very good, fully  
7 cooperative in helping us get through this expedited  
8 process, and it really had never been an issue to this  
9 day.

10 Q. Okay. Thank you, Mr. Frink. Could you please turn to  
11 Bates Page 44 of what's been identified as "Exhibit 1".

12 A. (Frink) I'm there.

13 Q. Okay. And, could you just refer to, within the subject  
14 rows that are identified as "Revenue Requirement  
15 Calculation", that fourth item, the role of  
16 depreciation in the calculation of the annual revenue  
17 requirement for the CIBS Program?

18 A. (Frink) Yes. Commissioner Harrington asked some  
19 questions regarding what's included in the mechanism,  
20 when it was -- since rate base is what drives the whole  
21 increase, and, for the most part, that's true. But, as  
22 you can see from this exhibit, the rate base is  
23 multiplied by the return, but there are also two annual  
24 expenses included, that is the depreciation expense and

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[WITNESSES: Frink~Knepper]

1 the taxes on that rate base. So, it is both the --  
2 there are two annual expenses that are reflected in  
3 here, in addition to the return on rate base.

4 Q. Okay. Thank you, Mr. Frink. On Bates Page 34 of  
5 Exhibit 1, there's an overall discussion of the  
6 treatment of Concord and Manchester, New Hampshire  
7 degradation fees. You can see that there's  
8 accumulating -- an accumulating balance there. Would  
9 you happen to have any thoughts on the possibility of  
10 the application of carrying charges on such an  
11 accumulating balance?

12 A. (Frink) When this first came up, it was new, the  
13 utility was contesting it in court, and expected to  
14 have it resolved within the year. The expenses you can  
15 see weren't that large relative to total expenses.  
16 And, the issue of whether -- well, actually, let me go  
17 back and say, so, it was expected to be resolved, in  
18 the testimony by the Company, the Company said they  
19 would, if it was returned, if the ruling was in their  
20 favor and they didn't have to pay those fees, then that  
21 money would be returned through a credit to the CIBS  
22 calculation, returned through rates. We never  
23 addressed whether that recovery would include carrying  
24 costs. For instance, in the cost of gas, there's an

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[WITNESSES: Frink~Knepper]

1 over/under balance that recovery -- that carrying costs  
2 are applied to when it's carried forward into the  
3 following year.

4 And, again, the discussions on that from  
5 the Bench made me think that's an issue that is  
6 outstanding. It's now reached a point of significance  
7 that I think it's something we're going to need to  
8 consider and resolve. It may be that the Company  
9 intends to do that, and there will certainly be a  
10 discussion probably in the next CIBS Program.

11 Q. I think that would address all of the questions I had  
12 for Mr. Frink.

13 A. (Frink) Yes.

14 Q. Mr. Knepper, would you like to provide the hearing  
15 room, including the Commissioners, with an overview of  
16 the history of the CIBS Program?

17 A. (Knepper) Yes, I guess. To put this in perspective, in  
18 2009, the Company replaced approximately 15,000 feet,  
19 and 104 bare steel services; in 2010, 21,000 feet and  
20 126 services; 2011, 14,000 feet and 105 bare steel  
21 services; and 2012 was a drop to 8,230 -- approximately  
22 230 feet (8,230) and 59 services; and last year was  
23 8,738 feet and 49 services. So, over a cumulative  
24 basis, this program has been in place for five years.

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1 It's about 68,000 feet, which is 12.75 miles. So,  
2 quickly, you know, that's almost 13 miles, roughly  
3 you're doing 3 miles a year under the Cast Iron and  
4 Bare Steel Program. And, services that we've  
5 accumulated to date is 443 bare steel services.

6 So, one of the questions was, you know,  
7 "how much do we have outstanding and what's the  
8 appropriate rate?" So, if you go to, I think it was  
9 Attachment -- Bates Attachment -- oh, boy, the one that  
10 had 123 miles outstanding of cast iron/bare steel. The  
11 thing to remember about that is, when you're  
12 considering that, and we wrestle with this as Staff,  
13 because we do not prescribe to them when they should  
14 have it out. We've done that in other cases. This  
15 case we have not.

16 CHAIRMAN IGNATIUS: And, it's Page 47.

17 **BY THE WITNESS:**

18 A. (Knepper) Yes. Line item 13, on Page 47. So, if you  
19 can see, you know, we were at 149, and we're at 123.  
20 So, there's another substantial portion of cast  
21 iron/bare steel that's being replaced outside the CIBS  
22 Program. So, I don't want the Commissioners to forget  
23 that there's external leak-driven projects done by the  
24 municipality, where they're digging up a road and

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1 paving is being restored. We also have a Cast Iron  
2 Encroachment Policy that has been required. So, we're  
3 getting some of the projects being done under the Cast  
4 Iron/Bare Steel Program, but we're also getting another  
5 portion of the projects to be removed under their  
6 regular traditional rate recovery and taking advantage  
7 of projects that are driven by outside the Company.

8 So, you got to kind of take those, the  
9 two of them combined, you have to kind of take into the  
10 context of what we're doing. And, so, and then next  
11 year, I think we want to kind of look at, you know,  
12 this year they did 8,738 feet, but next year they have  
13 already -- they proposed to basically double that to  
14 15,000 feet. So, those are the kind of things that  
15 we're looking for.

16 We have not, as a Staff, in the past put  
17 prescriptions as to what the rate should be. But one  
18 of the fears and the concepts that we have or issues is  
19 that the cost per foot were going up each year. And,  
20 so, it was kind of, until those costs got under control  
21 or are reduced, or at least get to a trend where  
22 they're leveling off, we weren't -- I was not going to  
23 recommend that we do more. I have to do that, I'm  
24 trying to help do the balance between those safety

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1 issues of the exhibit, where you see the bare steel  
2 samples, as well as the costs. And, so, those are the  
3 kind of considerations that we need to take a look at.

4 So, I'm pleased with the fact that next  
5 year they propose doing a lot more. We're passed the  
6 -- we're passed the stage where, you know, the Company  
7 has been in transition and mergers have occurred, and  
8 they can get back to focusing on replacing some  
9 infrastructure.

10 And, the other thing that I think I'm  
11 somewhat pleased about is that their overhead costs or  
12 their loaded costs are much less than the previous  
13 company. And, I don't know if that kind of came out or  
14 if that was shown in Attachment B. But, if you look at  
15 that, that's encouraging. So, one of the questions we  
16 asked earlier was "are those going to be going forward  
17 into the estimated costs?" Because the other thing we  
18 want to try to determine is, the estimated versus  
19 actuals, are they close to each other? Are they in the  
20 ballpark, if they're not? When you use estimated  
21 spreads versus actual costs, and they're very high,  
22 then we're going to kind of look at that as to what  
23 they should be going forward, because, you know, the  
24 numbers don't become, you know, readily acceptable.

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1                   So, that's all I wanted to kind of say  
2           about the historical perspective.

3 BY MR. SPEIDEL:

4 Q.   Do you have anything else to add in a general sense  
5       regarding the Program?

6 A.   (Knepper) Well, I think there's a couple things that we  
7       want to -- I would imagine is. If you go to Attachment  
8       B, it's a very large spreadsheet, which has a lot of  
9       numbers, which tells you how many services are  
10      replaced, what the year of installation is, whether  
11      it's bare steel or cast iron, what street, what  
12      segment. We asked for a very detailed, I think,  
13      analysis, and the Company spends a lot of time trying  
14      to segregate things out versus lumping them all  
15      together. And, it's not always readily or easily able  
16      to put together. And, so, in the past, I have done  
17      kind of a review of the highlights of that, it wasn't  
18      necessarily shown by Mr. Savoie, but I can go through  
19      that, if that's helpful.

20                   CHAIRMAN IGNATIUS: I don't think we  
21      need the individual work being done to be explained when  
22      we have it here. If there's any overarching trends or  
23      ways that you would characterize the work, I think that's  
24      fine.

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**BY THE WITNESS:**

A. (Knepper) Well, I think some of the things you want to kind of take note of on that attachment is the estimates were \$270 a foot, and they came in at \$200 a foot. That's quite a substantial difference. So, that spread between the actuals and estimates is quite large.

I think the other thing you want to look at on Attachment B is, there's eight projects that are included in this year's costs, which are nothing more than restoring pavement and degradation fees associated with the 2011 work that they did. And, it's because of those, if you look at that spreadsheet, you'll see there's \$589,000 worth of costs. That's a significant portion. I believe it's around 22 percent of the project costs. We have put in place in the Merger Agreement, in the Attachment J, I believe, that that's going to be limited to 5 percent in the future. And, by limiting it to 5 percent, we're trying to give an incentive to the Company to get these things done and get them done early in the season, and to not have all the costs of the projects not be included in that year of the Cast Iron/Bare Steel reconciliation. Because, if you're only getting partial of the dollars expended,

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1       you're really not getting a true cost, you're just  
2       getting a partial cost. And, so, it makes it very  
3       difficult. And, so, by putting that cap on, we expect  
4       next year this to either be zero or maybe one, that we  
5       won't see that trend going future.

6                   CHAIRMAN IGNATIUS: Can you help me?  
7       You just gave the number over \$500,000, and I'm not  
8       finding where on Attachment B that is.

9                   WITNESS KNEPPER: Attachment B is,  
10      there's a Page 1 of 2 and a 2 of 2. I kind of tape them  
11      together to read them all. But I believe it's -- does  
12      yours have line item numbers on it? It's Line Item 35, in  
13      Column S.

14                  MR. SPEIDEL: If I could interject, Mr.  
15      Knepper. It's on Page 1 of 2, Chairman. And, it's the  
16      block that's identified in the upper left-hand corner.  
17      This is -- this block is the smaller one towards the  
18      bottom. And, it's identified, in the upper left-hand  
19      corner, as "Carry Over Costs of Fiscal Year '12 Program".

20                  CHAIRMAN IGNATIUS: I see that cost --  
21      that block on the bottom of Page 41.

22                  MR. SPEIDEL: Yeah. And, there's --

23                  CHAIRMAN IGNATIUS: I don't see the  
24      500,000 number.

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1 MR. SPEIDEL: Well, there is a figure --

2 CHAIRMAN IGNATIUS: I see "455". Is  
3 that --

4 MR. SPEIDEL: Yes. The problem is, when  
5 it's reproduced in this format, it probably wraps around.  
6 Just give us a sec here.

7 WITNESS KNEPPER: It's on Page 42. And,  
8 it's the fourth column to the right of the --

9 MR. SPEIDEL: That's correct. There it  
10 is. It wraps around the page.

11 WITNESS KNEPPER: It's at the very  
12 bottom, on that same line as the "455".

13 MR. SPEIDEL: So, it's the same block,  
14 but it's just around the other page, "Carry Over Cost of  
15 Fiscal Year '12 Program".

16 CHAIRMAN IGNATIUS: And, so, the total  
17 for that carryover would be?

18 MR. SPEIDEL: "589,794", in terms of the  
19 line that reads "Total" -- column that reads "Total  
20 Recoverable Cost (Includes degradation fees & Ngrid  
21 Recoverable Costs)". The first, second, third, fourth,  
22 fifth column, if I'm not mistaken.

23 CHAIRMAN IGNATIUS: Which is the same as  
24 the actual "loaded" column?

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1 MR. SPEIDEL: The figures seem to be the  
2 same. I hesitate to say whether it's the same sum, but it  
3 does seem to be the same number. It is the same number?  
4 Yes.

5 WITNESS KNEPPER: Yes. The \$455,000 is  
6 what they call a "restoration cost for paving", and then  
7 they have another 100 and some thousand dollars for  
8 degradation fees to come with the 589,000 plus number.  
9 So, they're kind of broke into two categories for us.

10 CHAIRMAN IGNATIUS: And, then,  
11 Mr. Knepper, your point was, when you see that 589,000  
12 figure, were you saying that the first 500,000 is not  
13 recoverable?

14 WITNESS KNEPPER: No. What I'm saying  
15 is, it's not really associated with the work that they  
16 did, it's being carried over from the previous year. So,  
17 you're not really getting associated with the 1.65 miles  
18 that was put in last year. So, we're doing a  
19 reconciliation of almost the previous year, because  
20 they're not completing the projects and getting all the  
21 pavement done in that same construction year. They're  
22 waiting till the following spring to clean up things.  
23 And, so, you never get a true picture of really what the  
24 cost is per foot on a project-by-project -- or

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1 segment-by-segment basis.

2 CHAIRMAN IGNATIUS: Well, do you also  
3 have some carryforward from a 2011 set of projects that  
4 are included in the 2012?

5 WITNESS KNEPPER: Yes, that's what those  
6 -- that's what those eight projects on the bottom are.

7 CHAIRMAN IGNATIUS: Well, I thought  
8 those were '12 being carried into '13?

9 WITNESS KNEPPER: Well, when you say --  
10 the answer is going for -- when you say "going into '13",  
11 that were the Fiscal Year 13 numbers, yes.

12 BY MR. SPEIDEL:

13 Q. Okay. If I may address the panel, is it -- does Staff  
14 have any objection to the CIBS rate as filed for by the  
15 Company in this fiscal year?

16 A. (Frink) No.

17 A. (Knepper) No.

18 MR. SPEIDEL: That would conclude  
19 Staff's direct questioning of the panel.

20 CHAIRMAN IGNATIUS: All right. Ms.  
21 Knowlton, any cross-examination?

22 MR. KNOWLTON: No, I have no  
23 cross-examination.

24 CHAIRMAN IGNATIUS: Commissioner

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1 Harrington, any questions?

2 CMSR. HARRINGTON: Just one.

3 BY CMSR. HARRINGTON:

4 Q. Mr. Knepper, you made reference to something called a  
5 Cast Iron Encroachment Program", I think it was?

6 A. (Witness Knepper nodding in the affirmative).

7 Q. What is that? I'm not familiar with that term.

8 A. (Knepper) Liberty has a Cast Iron Encroachment Policy  
9 that they have. And, so, if another utility gets in  
10 the proximity of their cast iron main, they will  
11 replace that, a segment of that cast iron main within a  
12 certain distance. Those distances depend on whether  
13 you cross it perpendicularly or you cross it in a  
14 parallel fashion. Those are all programs and things  
15 that they have in place, that's a policy that they have  
16 had in place for a long time. Those are excluded out  
17 of the Cast Iron/Bare Steel Program, because they're  
18 already being done.

19 Q. So, if I may, if the water company is digging up there  
20 water line, and it's within so many feet of a cast iron  
21 pipe, then Liberty will jump in and say "Keep digging"  
22 or "we'll continue the hole to get to our pipe", or  
23 whatever, and then replace it?

24 A. (Knepper) Yes. Typically, let's say you cross it, they

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1           may replace 15 feet of main.

2   Q.    Okay.

3   A.    (Knepper) Because, you know, the feeling is is that, if  
4           I don't have a problem, I'm going to have a problem.

5   Q.    Eventually.

6   A.    (Knepper) Because the soil has been disturbed, and the  
7           conditions have changed around it. And, if I don't  
8           break -- if the cast iron doesn't break within the next  
9           year, it might be the following construction season or  
10          whatever. So, let's be proactive and remove it now.

11                   CMSR. HARRINGTON: Okay. Thank you.  
12   That's all I have.

13                   CHAIRMAN IGNATIUS: All right. Then,  
14   thank you. Oh, redirect?

15                   MR. SPEIDEL: None. Thank you.

16                   CHAIRMAN IGNATIUS: All right. Thank  
17   you. Then, you're excused, but maybe you want to just  
18   stay there. Anything, other than moving to closings?

19                   MR. KNOWLTON: Striking the  
20   identification from the exhibits.

21                   CHAIRMAN IGNATIUS: Right. It sounds  
22   like there's no objection to that. So, we'll do that.  
23   And, we now have an opportunity for a Staff closing  
24   statement?

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1 MR. SPEIDEL: Yes. Thank you. The  
2 Staff has no objection to the Company's Cast Iron/Bare  
3 Steel rates as filed for in this filing. Thank you.

4 CHAIRMAN IGNATIUS: Thank you.  
5 Ms. Knowlton.

6 MR. KNOWLTON: Thank you. The Company  
7 carried out the CIBS projects for this fiscal year largely  
8 as proposed. The rates that will result from the program  
9 the Company believes are just and reasonable. And, we ask  
10 that they be approved to take effect as of July 1st.

11 I did want to offer one comment in  
12 regard to Commissioner Harrington's concern about the  
13 Concord and Manchester litigation and the fees that are  
14 imposed. We, too, are very concerned about those fees.  
15 And, in particular, the use of those fees as an additional  
16 revenue source for the municipalities, which is why, you  
17 know, we are litigating those fees, and really vigorously  
18 pushing back on them. You know, we do not believe that  
19 they're necessary, we don't believe that they're legally  
20 required. And, you know, we think it's very important  
21 litigation to pursue. So, we share your concerns. And,  
22 you know, we'll keep the Commission updated about that  
23 litigation as it moves forward, as we do expect some  
24 changes, you know, this year with regard to that. So,

1       thank you.

2                       CHAIRMAN IGNATIUS:  Thank you.  Then,  
3       we'll take all of this under advisement and have an order  
4       prior to the July 1st proposed effective date.  Thank you  
5       very much.  And, we're adjourned.

6                       **(Whereupon the hearing ended at 3:06**  
7                       **p.m.)**