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N.H.P.U.C. Case No.	DG 14-041
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Witness	Panel 2
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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 14-041

In the Matter of:
Liberty Utilities
Cast Iron/Bare Steel Replacement Program

Direct Testimony

of

Stephen P. Frink
Assistant Director – Gas & Water Division

June 17, 2014

1 **Q. Please state your name, occupation and business address.**

2 **A.** My name is Stephen P. Frink and I am employed by the New Hampshire Public Utilities
3 Commission (Commission) as Assistant Director of the Gas & Water Division. My
4 business address is 21 S. Fruit Street, Suite 10, Concord, New Hampshire 03301.

5 **Q. Please summarize your educational and professional experience.**

6 **A.** I have a Bachelor of Arts degree and a Master of Business Administration from the
7 University of New Hampshire. I attended and completed Depreciation Programs, Inc. at
8 Grand Rapids, Michigan, in 1992, 1993, and 1994, and I am a member in good standing
9 of the Society of Depreciation Professionals since 1994. Prior to joining the Commission
10 in 1990 I worked as an Auditor for Dallas County and Schenley Industries and as a
11 Budget/Financial Analyst for the cities of Dallas and Austin, Texas. I joined the
12 Commission in 1990 and have held the following positions: Auditor, Analyst, Senior
13 Analyst, Assistant Finance Director and, since 2001, my current position as Assistant
14 Director of the Gas & Water Division.

15 **Q. What is the purpose of your testimony in this proceeding?**

16 **A.** To recommend approval of the proposed rate increase and to suggest revisions to the Cast
17 Iron/Bare Steel (CIBS) program for future consideration. Staff is very concerned with
18 the Company's failure to add non-gas customers along replacement mains and believes
19 that the CIBS step adjustment should include an incentive mechanism tied to a revenue
20 target. The suggested revision would increase or decrease the CIBS revenue requirement
21 depending on whether the revenue target tied to customer conversions exceeded or fell

1 short of expectations.

2 **Q. Why should revenues factor into the CIBS revenue requirement?**

3 **A.** The purpose of the CIBS program allowing for annual rate adjustments outside of a full
4 rate case is to accelerate the replacement of leak prone pipes, primarily for safety
5 purposes. The accelerated replacement of leak prone pipes is also expected to reduce
6 operating and maintenance (O&M) costs and to generate new revenue through customer
7 growth, which serve to offset the cost of the program over the long run. O&M savings
8 are realized through fewer leak repairs and emergency response calls. Revenue growth
9 can be realized by actively pursuing new customers along the mains to be replaced, when
10 many of the costs normally associated with installing a new service can be avoided, such
11 as equipment siting, permitting, road resurfacing, and degradation fees. Lower expenses
12 and greater revenues serve to delay the need for a general rate case and reduce the
13 revenue requirement when filed.

14 **Q. What would be a reasonable revenue target based on customer conversions?**

15 **A.** The target revenue for a line extension is sixty percent of the Estimated Annual Margin¹
16 of premises along the new main. For the CIBS program, non-gas premises along the
17 replacement line would represent potential new customers and a reasonable revenue
18 target would be something less than 60%, as those customers have had the opportunity to
19 convert and have not done so, though the conversion rate may not be significantly lower
20 if those potential customers are aggressively targeted and effective marketing and

1 ¹ Estimated Annual Margin is equal to the estimated annual revenue to be derived from the monthly customer

1 incentive programs are in place.

2 **Q. What is the basis for the sixty percent revenue target for new mains?**

3 **A.** In the recent investigation into Liberty's line extension policy (DG 13-198) the Company
4 determined that it could reasonably anticipate that 60% of existing premises along a new
5 main will take service.² The Company based its determination on a study performed for
6 National Grid in October of 2012.³

7 **Q. What percentage of the non-gas premises along CIBS replacement mains were**
8 **converted to natural gas in 2013?**

9 **A.** Three percent. There were 271 premises along the replacement mains of which 64 were
10 non-gas. Services were installed at two of the non-gas premises.

11 **Q. What percentage of the non-gas premises along CIBS replacement mains were**
12 **converted to natural gas in 2012?**

13 **A.** Two percent. There were 180 Liberty customers along the replacement mains and 46
14 potential customers (43 residential and 3 commercial). One residential customer was
15 added.

16 **Q. Please describe the efforts undertaken by Liberty to convert the non-gas premises in**
17 **the past.**

18 **A.** Premises along the replacement mains received an abutter letter of notification, as

Charge and delivery charge during the customer during the first twelve months. *See definition, Liberty Tariff p. 10.*

2 Liberty Tariff p. 11, 'When calculating the Estimated Annual Revenue the Company is required to include all existing premises for which the Company reasonably anticipates will take service, using the assumption that 60% of such premises will take service.'

3 DG 13-198 hearing transcript, p. 20 line 11 thru p. 21, line 3, Liberty witness Stephen Hall.

1 required by Puc 504.04(h). The abutter letter notified property owners of the location and
2 timeline of work to be performed, contact information for Liberty construction personnel,
3 and contact information for customers interested in having natural gas service brought to
4 the property.

5 **Q. Does the Company plan to more aggressively pursue potential customers this**
6 **summer?**

7 **A.** Yes. Liberty intends to perform test marketing as part of this summer's CIBS program.
8 A Liberty Utilities Sales Rep will be placing door hanger advertisements on residential
9 homes and meeting (face-to-face) with any affected businesses, although some residential
10 customers will only receive an abutter letter. *See Attachment SPF-1 (Staff DR 1-7).*

11 **Q. Does Staff expect a significant increase in conversion based on the proposed market**
12 **plan for this summer?**

13 **A.** No, because there is little incentive for a customer to sign up during a main replacement
14 as opposed to a later date. While the Company will experience significant savings by
15 adding a service during a main replacement, a customer that converts during the
16 replacement or immediately after will realize the same savings, as there is no customer
17 contribution required in either instance.

18 **Q. In addition to increased marketing, what other steps could Liberty take to incent**
19 **customers to convert to natural gas during a main replacement or installation?**

20 **A.** Liberty could seek a tariff change requiring a non-heat service request be subject to the
21 customer contribution requirement except when a service is installed in conjunction with

1 a main extension or replacement. It is worth noting that Northern Utilities provides for
2 the installation of 100 feet of service pipe at no charge to residential heating customers,
3 with all other customers being subject to a revenue test to determine if a customer
4 contribution is required. Liberty could also offer potential customers along a new or
5 replacement main a free or discounted water heater. Customers taking advantage of the
6 offer would realize immediate savings in water heating costs and could expect much
7 greater savings if converting to heating service when replacing an existing furnace or
8 boiler. The avoided capital costs of installing a new service during a main extension or
9 replacement would be well in excess of the cost of a water heater.

10 **Q. Is it Staff's recommendation that the Commission approve a revenue growth**
11 **incentive mechanism at this time?**

12 **A.** No. Although Liberty has realized very little sales growth through the CIBS program,
13 well below what could reasonably be expected, the 2014 construction season is under
14 way and it would be difficult to implement new marketing programs and tariff changes
15 necessary to significantly increase conversions this summer.

16 **Q. What is the next step in implementing a revenue growth incentive mechanism as**
17 **part of the CIBS program?**

18 **A.** Liberty should complete its test marketing and report the test results, propose marketing
19 and tariff changes designed to increase conversions, and present and explain what a
20 reasonable revenue target based on expected conversions would be. Liberty should
21 provide submit that information to Staff by year end to allow sufficient time for review

1 and implementation.

2 **Q. Does Staff support the proposed CIBS rate increase for effect July 1, 2014?**

3 **A.** Yes. Staff has completed a thorough review of the filing, having issued three rounds of
4 discovery and participated in three technical sessions and, based on its review,
5 recommends the Commission approve the proposed rates as being fair and reasonable.

6 **Q. Does Staff have any other comments or concerns?**

7 **A.** Yes. Last winter Liberty adopted a new line extension policy that reduces or eliminates
8 customer contributions when installing new services, thereby making conversion to
9 natural gas more economical. That said, Staff believes that further steps are needed to
10 encourage economic growth. Aggressively targeting non-gas customers along
11 replacement mains affords the Company the opportunity to add customers at a reduced
12 cost, an opportunity that has been missed in the past.

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

14 **A.** Yes.