

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 19, 2017 - 1:03 p.m.
Concord, New Hampshire

18 JUL '17 PM 1:45

RE: DG 17-063
LIBERTY UTILITIES (ENERGYNORTH
NATURAL GAS) CORP. d/b/a
LIBERTY UTILITIES:
*2017 Cast Iron/Bare Steel
Replacement Program Results.*

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Robert R. Scott
Commissioner Kathryn M. Bailey

Sandy Deno, Clerk

APPEARANCES: Reptg. Liberty Utilities (EnergyNorth
Natural Gas) Corp. d/b/a Liberty
Utilities:
Michael J. Sheehan, Esq.

Reptg. PUC Staff:
John Clifford, Esq.
Randall Knepper, Director/Safety Div.
Stephen Frink, Asst. Dir./Gas & Water
Robert Wyatt, Safety Division
Al-Azad Iqbal, Gas & Water Division

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

**CERTIFIED
ORIGINAL TRANSCRIPT**

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P R O C E E D I N G

1
2 CHAIRMAN HONIGBERG: We're here in
3 Docket 17-063, which is Liberty's Cast
4 Iron/Bare Steel Replacement Program. We have
5 filings from the Company and from Staff, and I
6 believe we're here for a hearing on the merits.

7 Before we do anything else, let's
8 take appearances.

9 MR. SHEEHAN: Good afternoon,
10 Commissioners. Mike Sheehan, for Liberty
11 Utilities (EnergyNorth Natural Gas).

12 MR. CLIFFORD: And John Clifford, on
13 behalf of Commission Staff. And with me at
14 counsel's table is Randall Knepper, Director of
15 the PUC Safety Division; Bob Wyatt, an Analyst
16 in the Safety Division; and Iqbal Al-Azad, an
17 Analyst in the Gas and Water Division.

18 CHAIRMAN HONIGBERG: I see the
19 Company's witnesses are prepositioned. What's
20 the order of events for today?

21 MR. SHEEHAN: My expectation is we
22 have, between two parties, we have three
23 exhibits. And I intended to put this panel on
24 with their testimony and exhibits, and then I

1 understand Staff will put on Mr. Knepper
2 separately for his testimony.

3 CHAIRMAN HONIGBERG: Are there any
4 preliminary matters we need to deal with before
5 the Company's witnesses start?

6 MR. SHEEHAN: There are three
7 exhibits. "Exhibit 1" is the Company's filing,
8 which is Bates 001 through 085. That includes
9 the testimony of the three individuals up
10 there, with their attachments.

11 By agreement with Staff, "Exhibit 2"
12 will be Mr. Knepper's testimony. "Exhibit 3"
13 will be a data response -- or, I should say a
14 revised schedule that Mr. Simek will explain, a
15 revised version of Attachment DBS-1. And
16 "Exhibit 4" will be a revised version of
17 Attachment DBS-2.

18 And, although those are Staff
19 exhibits, the Company has no objection to their
20 admission.

21 CHAIRMAN HONIGBERG: Are there going
22 to be any objection to the admission of any of
23 these exhibits? Could we just dispense with
24 that now?

1 MR. CLIFFORD: No. There will be no
2 objections.

3 CHAIRMAN HONIGBERG: All right. So,
4 all of these are full exhibits, and we won't
5 have to deal with that at the end.

6 (The documents, as described,
7 were herewith marked as
8 **Exhibit 1** through **Exhibit 4**,
9 respectively, and entered as
10 full exhibits.)

11 CHAIRMAN HONIGBERG: I also see,
12 Mr. Sheehan, that there's an errata sheet that
13 I assume you'll go through with your witnesses?

14 MR. SHEEHAN: That's actually
15 Mr. Knepper's.

16 CHAIRMAN HONIGBERG: Oh, it's yours.

17 MR. CLIFFORD: Yes.

18 CHAIRMAN HONIGBERG: All right.
19 Then, you'll deal with that when Mr. Knepper is
20 up there?

21 MR. CLIFFORD: Exactly.

22 CHAIRMAN HONIGBERG: All right.
23 Anything else?

24 MR. SHEEHAN: No, sir.

[WITNESS PANEL: Simek~MacDonald~Frost]

1 CHAIRMAN HONIGBERG: All right.

2 Mr. Patnaude.

3 (Whereupon **David B. Simek,**
4 **Richard G. MacDonald,** and
5 **Brian R. Frost** were duly sworn
6 by the Court Reporter.)

7 CHAIRMAN HONIGBERG: Mr. Sheehan, you
8 may proceed.

9 MR. SHEEHAN: Mr. MacDonald forgot to
10 raise his right hand, because he's jet-lagged.

11 WITNESS MacDONALD: I'm sorry. Blame
12 me.

13 MR. SHEEHAN: Something about
14 arriving at two this morning.

15 **DAVID B. SIMEK, SWORN**

16 **RICHARD G. MacDONALD, SWORN**

17 **BRIAN R. FROST, SWORN**

18 **DIRECT EXAMINATION**

19 BY MR. SHEEHAN:

20 Q. I'll start with you, Mr. Simek. Your name,
21 please, and your position with the Company?

22 A. (Simek) David Simek. And I'm a Lead Analyst.

23 Q. And what was your involvement with this CIBS
24 filing?

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 A. (Simek) I calculated the revenue requirement.

2 Q. And did you prepare testimony and exhibits that
3 were filed?

4 A. (Simek) I did.

5 Q. And, if I were to ask you today the questions
6 in that written testimony, would your answers
7 be the same?

8 A. (Simek) No.

9 Q. Okay.

10 A. (Simek) There's one update.

11 Q. Would you please give us that one update.

12 A. (Simek) As far as the degradation fees go,
13 there was an order that came out on Friday from
14 the Supreme Court, and it ruled against the
15 Company.

16 Q. Other than that update, are there any other
17 changes in your testimony or exhibits?

18 A. (Simek) No, there is not.

19 Q. And do you adopt your testimony here this
20 morning -- or, this afternoon?

21 A. (Simek) Yes.

22 Q. Thank you. Mr. MacDonald, your name and
23 position with the Company please?

24 A. (MacDonald) My name is Richard MacDonald. I'm

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 the Director of Gas Operations for Liberty
2 Utilities New Hampshire.

3 Q. And there's testimony in the file, in Exhibit
4 1, that's authored by you and Mr. Frost, is
5 that correct?

6 A. (MacDonald) That is correct.

7 Q. And what was your involvement in preparing that
8 testimony and the attached Results Filing?

9 A. (MacDonald) My group worked -- my team works
10 with the Engineering team to assemble all of
11 the data relevant to the filing.

12 Q. And do you have any changes or corrections to
13 that part of the filing that is your
14 responsibility?

15 A. (MacDonald) I do not.

16 Q. And, if I were to ask the questions that are in
17 the testimony, which is at Bates 001 through
18 020, would your answers be the same?

19 A. (MacDonald) Yes, they would.

20 Q. And do you adopt your testimony here today?

21 A. (MacDonald) Yes.

22 Q. Mr. Frost, your name and position with the
23 Company please?

24 A. (Frost) My name is Brian Frost. I'm a Senior

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 Engineer in the Gas Department, at Liberty.

2 Q. And this is your first time testifying here at
3 the Commission, is that correct?

4 A. (Frost) Correct.

5 Q. When did you start with Liberty?

6 A. (Frost) I started in April of last year.

7 Q. And what was your involvement with the filing
8 that we have in front of us today?

9 A. (Frost) I prepared the pipe samples and the
10 year-end construction results, as far as
11 mileage.

12 Q. And did you participate in the drafting of the
13 testimony that has been filed?

14 A. (Frost) Yes, I did.

15 Q. And do you have any corrections or additions to
16 that testimony?

17 A. (Frost) No.

18 Q. And, if I were to ask you today the same
19 questions that are in writing, would your
20 answers be the same?

21 A. (Frost) Yes.

22 Q. And do you adopt that testimony here today?

23 A. (Frost) I do.

24 MR. SHEEHAN: The witnesses are

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 available for cross-examination.

2 CHAIRMAN HONIGBERG: Mr. Clifford.

3 MR. CLIFFORD: Thank you.

4 **CROSS-EXAMINATION**

5 BY MR. CLIFFORD:

6 Q. Mr. Simek, a couple questions I have about your
7 testimony today. You mentioned that there had
8 been a holding filed by the Supreme Court with
9 respect to the degradation filing. I know we
10 talked about that earlier in our tech session.
11 But can you or have you yet had a chance to
12 read it and give us a sense of the impact that
13 that ruling will have on the Company and on
14 customer rates, for example?

15 A. (Simek) I have.

16 Q. And would you be prepared to give us a sense of
17 where that number is going?

18 A. (Simek) Sure. It's actually related to DBS
19 Attachment DBS-4. And it would be on Bates
20 Page 082. And I just want to stress that these
21 costs currently are not in this filing. This
22 was just for illustrative purposes only.

23 Q. Right. And that filing shows a revenue
24 requirement or is an increase of -- or, where

[WITNESS PANEL: Simek~MacDonald~Frost]

1 would the impact be felt?

2 A. (Simek) Right.

3 Q. What numbers would change and --

4 A. (Simek) Sure.

5 Q. -- perhaps by how much? I know that filing

6 only came out Friday, but if you've had a

7 chance to --

8 A. (Simek) Well, this is related to the Manchester
9 portion of our business. For the fees that we
10 did not pay the City of Manchester, that has
11 now been ruled that we do need to. And this
12 was for the CIBS projects only, on Bates Page
13 082, Line 1, you can see that the total spend,
14 through Fiscal Year 2017, was "\$1,198,059.

15 And, of that, if we go all the way down to
16 Line 32, would be an annual revenue requirement
17 of "\$128,646".

18 CHAIRMAN HONIGBERG: Can I stop you,
19 Mr. Clifford?

20 MR. CLIFFORD: Sure.

21 CHAIRMAN HONIGBERG: Mr. Sheehan,
22 this morning I actually looked to see if the
23 Court had ruled, and I even watched the oral
24 argument from last fall. And I'm not finding

[WITNESS PANEL: Simek~MacDonald~Frost]

1 the decision on the website. I didn't find it
2 this morning and I don't find it right now.

3 MR. SHEEHAN: We had the same issue.
4 We first heard about it Friday from a press
5 release from the Mayor's Office. And, so, I
6 called our counsel, and they went through the
7 same exercise; couldn't find it. And, in fact,
8 it is an order from the Supreme Court that they
9 mailed. So, we were -- my reaction exactly.

10 So, we were -- the McLane firm was
11 able to track it down, and emailed us a copy of
12 it late Friday afternoon.

13 I can certainly forward it to
14 counsel, so you have it here.

15 CHAIRMAN HONIGBERG: Is it a decision
16 like a regular Supreme Court decision, written
17 by -- I think only three justices sat, written
18 by one and joined by the other two?

19 MR. SHEEHAN: Yes. It's a multipage
20 order, but it's written as an "order", rather
21 than as an "opinion".

22 CHAIRMAN HONIGBERG: Oh. So, it
23 didn't come out as an opinion?

24 MR. SHEEHAN: Correct. It came out

[WITNESS PANEL: Simek~MacDonald~Frost]

1 as an order. It has that usual first paragraph
2 that -- the sentence that says "We don't think
3 an opinion is necessary", or words to that
4 effect.

5 CHAIRMAN HONIGBERG: Off the record.

6 *[Brief off-the-record discussion*
7 *ensued.]*

8 CHAIRMAN HONIGBERG: We'll go back on
9 the record.

10 MR. SHEEHAN: And, briefly, the
11 order --

12 CHAIRMAN HONIGBERG: Wait, wait.

13 *[Brief off-the-record discussion*
14 *ensued.]*

15 CHAIRMAN HONIGBERG: So, what else
16 can you tell me about the order?

17 MR. SHEEHAN: Sure. There were two
18 issues on appeal. One was the Superior Court's
19 finding that the penalty provision of Concord's
20 fee was illegal, and it was the Company's
21 appeal of the Superior Court's order that the
22 rest of the degradation fees were legal. And
23 the Supreme Court held against us in both
24 matters. They affirmed the regular degradation

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 fees and they reversed the trial court on the
2 penalty degradation fees.

3 And I can expand briefly on what Mr.
4 Simek said. We have been paying the Concord
5 fees all along. So, there's no change.
6 Concord simply doesn't have to refund them.

7 We have not been paying the City of
8 Manchester's. By agreement, they let us set
9 that aside. And we have been accounting for
10 them, but have not paid them. So, now, we will
11 have to, assuming there's no reconsideration,
12 and I don't think there will be, we will have
13 to pay the Manchester fees. And the CIBS is
14 about a third of the total. So, there's money
15 outside of the CIBS that will be in play as
16 well.

17 CHAIRMAN HONIGBERG: Okay. Thank
18 you.

19 Mr. Clifford, you may continue.

20 BY MR. CLIFFORD:

21 Q. So, I gather, I'd like to ask Mr. Simek, but
22 you may not be able to answer this, but how
23 does the Company intend to approach the
24 recoupment issue with -- in light of the fact

[WITNESS PANEL: Simek~MacDonald~Frost]

1 that we received a decision on Friday.

2 A. (Simek) Right.

3 Q. And I must confess that I heard it on the radio
4 this morning and came into the office, and also
5 looked for that decision and couldn't find it.
6 So, I'm happy you're here today.

7 A. (Simek) Yes. At this point, we're not sure how
8 we're going to handle the recoupment. We
9 briefly talked about it on Friday, and then we
10 haven't even had a discussion about it today.

11 Q. So, maybe this would be a discussion you might
12 want to have with your counsel, but I just
13 wanted to get some information about whether
14 you intended to supplement this filing or we're
15 going to move on?

16 A. (Simek) We do not intend on supplementing this
17 filing.

18 Q. Okay. Thank you. No more questions for you,
19 but, for Mr. Frost, I just have, I think, one
20 brief question. I know the Safety Division has
21 requested samples, pipe samples. And we'd just
22 like to know when those would be forthcoming?
23 They have yet to receive the degraded pipe
24 samples that have been requested, as I

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 understand it.

2 A. (Frost) I did drop those off with Mr. Joe
3 Vercellotti from the Safety Division.

4 Q. Do you recall what date, roughly?

5 A. (Frost) I don't recall the exact date.

6 Q. Within the last month?

7 A. (Frost) It was before --

8 *[Court reporter interruption.]*

9 **BY THE WITNESS:**

10 A. (Frost) Before the technical session.

11 MR. CLIFFORD: Well, I appreciate
12 your answer, and we'll go back and look for
13 that.

14 And, on that note, I don't have any
15 further questions of these witnesses.

16 CHAIRMAN HONIGBERG: Commissioner
17 Scott.

18 CMSR. SCOTT: Good afternoon. My
19 usual caveat, some of my questions, whoever
20 feels best to answer, you should feel so free
21 to do so.

22 BY CMSR. SCOTT:

23 Q. In Staff's filing, they talk about "DOT 7100
24 Reports", are you familiar with that?

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 A. (MacDonald) The annual filing, yes.

2 Q. I was just curious. They talked about a
3 discrepancy this year being larger than any of
4 the past years. Can you shine a light on that
5 for me?

6 A. (Frost) There's typically a mapping delay, when
7 we do our DOT report, to when all the projects
8 have been officially as built it. And, on the
9 mapping books and property record books, it can
10 be several months long from the end of
11 construction, at the end of calendar year, to
12 when everything is mapped. I think the DOT
13 report is due in the spring.

14 Q. Okay. So, that's just a latency issue of when
15 it catches up?

16 A. (Frost) Yes.

17 Q. Okay. Thank you. So, I was pleased to see an
18 analysis showing that your -- I think you would
19 agree with this characterization, that it's
20 getting cheaper, the costs are getting lower
21 per mile replaced at this point, is that a fair
22 statement?

23 A. (MacDonald) It is.

24 Q. Okay. And, again, don't -- this is not

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 criticism, it's more "how does that happen"
2 type of question?

3 A. (MacDonald) Well, there's a number of factors.
4 The volume of pipe replacement influences that
5 overall cost per foot, I believe is to what
6 you're referring to.

7 Q. Yes.

8 A. (MacDonald) So, you know, the volume of what
9 we're doing, the size of the projects. In our
10 contracts, we have a, you know, incremental
11 unit structure. So, projects that are over
12 500 feet versus projects over, you know, 1,500
13 or 2,000 feet, those higher number projects
14 with our contracts have a lower cost per foot,
15 you know, direct cost per foot impact.

16 And, then, we have done some grind and
17 inlay or pavement restoration work, you know,
18 partnering with the cities on, you know, trying
19 to reduce our restoration costs.

20 Q. Is that a trend you expect to continue?

21 A. (MacDonald) Yes. We're quite successful with
22 it within the City of Concord. We're working
23 with Manchester. And we're working with the
24 City of Nashua on expanding it to those areas.

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 Q. I'm glad to hear that, too. My question was
2 regarding the cost trend, not the --

3 A. (MacDonald) Oh, the cost trend? As far as cost
4 per foot, I think we're probably, hopefully, at
5 a stable level, and, you know, trying to keep
6 it, you know, flat as -- you know, as flat as
7 we can.

8 Q. And one of my questions is -- it really gets
9 down to "can you meet your 2024 goals?" So
10 that -- just so you're aware. So, is all the
11 work, the main replacement work kind of equal,
12 or is like, you know, some years you can get
13 the low-hanging fruit, other years it's more
14 difficult, depending on where you go, or is it
15 all pretty much the same --

16 A. (MacDonald) I think it's all pretty much the
17 same. I think the low-hanging fruit has
18 disappeared or it's gone. And, you know,
19 the -- Brian is working on, you know,
20 selecting, you know, certain areas where we can
21 mobilize to and stay in and, you know, take
22 advantage of doing neighborhood-type work, but
23 longer, longer projects, you know. Instead of
24 the five or 600-foot projects that we started

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 out with back in 2011, you know, we're now up
2 to over 2,500 and 3,000-foot, you know, main
3 replacement projects, singular projects.

4 Q. Do you see any roadblocks to meeting your 2024
5 goal?

6 A. (MacDonald) Not at this time, no.

7 Q. Okay. Can you tell -- is there an average age
8 of the mains that you're replacing? Is it
9 pretty consistent?

10 A. (MacDonald) Brian, would you like to take that?

11 A. (Frost) The age, I would say, is approximately
12 90 to 100 years old. There's some cast iron
13 installed by predecessor companies into the
14 1940's. But, as in our exhibits and filings,
15 it shows that it's from the early 1900's
16 mostly, and late 1800's.

17 Q. So, not a design flaw, *per se*, maybe at the end
18 of its service life?

19 A. (Frost) Correct. Well beyond service life.

20 Q. In your filing also you talked about wanting to
21 readdress the 5 percent cap carryover cost.
22 Can you elaborate on that a little bit? And we
23 discussed in past dockets. Why is that a
24 hindrance? What is that causing for the

[WITNESS PANEL: Simek~MacDonald~Frost]

1 Company that's negative?

2 A. (Simek) Sure. Well, for the Fiscal Year 2017,
3 that 5 percent amount was \$47,976. And, if we
4 remove that from this filing, it will have a
5 minimal impact to customers, which is what Mr.
6 Knepper is recommending that we do.

7 As far as for future filings, we just plan
8 on doing much more work, and there will be much
9 more carryover as we do it. And that's, again,
10 why we brought it up last year and we had the
11 concern that the dollar amount will be much
12 more prohibitive in the future, as far as
13 waiting for our next rate case to come for us
14 to be able to earn a return on that investment.

15 Q. It's all coming back to me now. I saw in your
16 filing also, obviously, when we have a mild
17 winter, that means you can work later into the
18 year. And I think I saw you went to February,
19 which is, you know, pretty amazing, I think.

20 A. (MacDonald) Yes. Yes.

21 Q. When do you typically start the next year's
22 work?

23 A. (MacDonald) We start it, you know, mid-May, you
24 know, and we're really, you know, ramping up

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 during the month of June. And we've got more
2 crews coming on board, you know, through
3 this -- the end of this month. So, it starts
4 in May, middle of May.

5 Q. I guess May makes sense. When you say you're
6 "starting to ramp up in June", that sounds, for
7 your aggressive schedule, it sounds kind of
8 late in the year to be "ramping up", but I
9 guess it's a turn of phrase, I suppose?

10 A. (MacDonald) Yes. You know, we have other work
11 that we have to start out the year with, a lot
12 of it's -- some of it is city/state work. We
13 have to get our paving restoration cleaned up
14 from the winter activity. Some of the cities
15 and towns restrict us from starting until that
16 work has been completed. So, a lot of it is --
17 and getting the projects permitted and, you
18 know, planned out properly. Our timeline
19 usually is May, when we're given the green
20 light in most of the communities to go.

21 Q. Are you finding you're able to get the crews
22 you need?

23 A. (MacDonald) Yes, we are. Yes.

24 CMSR. SCOTT: Okay. I think that's

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 all I have.

2 CHAIRMAN HONIGBERG: Commissioner
3 Bailey.

4 CMSR. BAILEY: Thank you. Good
5 afternoon.

6 WITNESS SIMEK: Good afternoon.

7 BY CMSR. BAILEY:

8 Q. So, when can you begin the permanent
9 restoration, if you don't get it done before
10 the end of the year?

11 A. (MacDonald) As ambient temperatures allow for,
12 but usually that's in the middle of April to
13 the end of April we'll start the restoration,
14 and we try to get it completed before the end
15 of May.

16 Q. So, if you changed your fiscal year to the end
17 of May, to end in the end of May, instead of
18 the end of March, would that help with the
19 carryover problem or would that create other
20 problems?

21 A. (MacDonald) I think to fully button that up and
22 have everything in, we'd be more looking at
23 like the -- my recommendation would be the end
24 of June.

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 Q. Okay. Is that anything that you've discussed
2 with Staff?

3 A. (MacDonald) Not that I'm aware of.

4 Q. Would that require a change in the Settlement
5 Agreement that other parties were part of?

6 A. (MacDonald) I think it may. Right, Randy?
7 Yes.

8 Q. So, that wouldn't -- that wouldn't address the
9 problem that you of changing the cap from
10 5 percent to 15 percent, without dealing with
11 all the other parties in that Settlement
12 Agreement?

13 A. (MacDonald) Correct.

14 Q. All right. But your position is that the cap
15 should be increased, because, by waiting
16 through the frost cycle, as required by
17 Concord, it's less expensive to do the final
18 restoration than if you did it the old way?

19 A. (Frost) That is part of it.

20 A. (MacDonald) Yes. That's part of it. The
21 freeze/thaw cycle, you know, when we're using
22 the alternative paving restoration methods, you
23 know, works well.

24 In Nashua, they require a 30-day

[WITNESS PANEL: Simek~MacDonald~Frost]

1 settlement period before we begin pavement
2 restoration, and they also have temperature
3 limitations. So, in some of the data request
4 responses that we provided, we detailed out,
5 you know, the impact of that. And,
6 essentially, you know, by the end of October,
7 you know, whatever we have permanently restored
8 is probably -- or, everything else that isn't
9 permanently restored, a different way of
10 looking at it is, is at risk for not getting
11 permanently restored. You know, the increase
12 for this year was largely due by, you know, the
13 higher volume of pipe replacement that we did
14 this past year.

15 Q. And is the methodology where you do a
16 temporary, is it called "fill", and you wait
17 for other utilities maybe next spring to dig it
18 up, and then the municipality wants to do a
19 final pave maybe even two years after you've
20 done your work, is that all carried over even
21 maybe for two years?

22 A. (MacDonald) That could happen. But, usually
23 not -- when we're into cost-sharing with other
24 communities and other utilities, it usually

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 follows the year after the work is performed.

2 CMSR. BAILEY: Okay. All right.

3 Thank you. That's all I have.

4 BY CHAIRMAN HONIGBERG:

5 Q. The new reality that the Company is going to
6 have to pay the degradation fees, does that
7 affect things going forward? I think maybe you
8 haven't figured that out yet, is that what you
9 said?

10 A. (Simek) Yes. As far as the fees that we've
11 already incurred, --

12 Q. That I get.

13 A. (Simek) Okay.

14 Q. You're going to have collect those.

15 A. (Simek) That's what we haven't figured out yet.
16 Going forward, they will still be charged
17 directly to the job, whether it's a CIBS job or
18 any other job. And we will just move forward
19 from there.

20 Q. Will it change your approach to making repairs
21 and other work in Concord and Manchester? Will
22 you try and plan around other utilities or the
23 city schedule for doing work? I assume that,
24 if you do it at a place where the City is

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[WITNESS PANEL: Simek~MacDonald~Frost]

1 planning on doing something anyway, you don't
2 get hit for degradation fees. Is that a
3 correct assumption?

4 A. (MacDonald) That's correct. And we would
5 continue to coordinate our programs with the
6 cities, you know, mainly in Concord,
7 Manchester, and Nashua. Which we've been doing
8 or it's been -- that's an ongoing process, it's
9 outside of this Program.

10 CHAIRMAN HONIGBERG: All right. I
11 think that's all I have.

12 Mr. Sheehan, do you have any further
13 questions for your witnesses?

14 MR. SHEEHAN: I do not. Thank you.

15 CHAIRMAN HONIGBERG: All right. I
16 think you gentlemen can return to your seats.

17 And, Mr. Clifford, Mr. Knepper is the
18 only witness that you're going to be calling?

19 MR. CLIFFORD: That is correct.

20 CHAIRMAN HONIGBERG: Off the record
21 while this happens.

22 *[Off the record.]*

23 CHAIRMAN HONIGBERG: All right.

24 Mr. Patnaude.

[WITNESS: Knepper]

1 (Whereupon **Randall S. Knepper**
2 was duly sworn by the Court
3 Reporter.)

4 CHAIRMAN HONIGBERG: Mr. Clifford.

5 **RANDALL S. KNEPPER, SWORN**

6 **DIRECT EXAMINATION**

7 BY MR. SHEEHAN:

8 Q. Can you please state your full name, place of
9 employment, and your position?

10 A. Randall S. Knepper, New Hampshire Public
11 Utilities Commission, Director of Safety.

12 Q. And are you familiar with the document you
13 filed in this docket on June 14th, 2017, I
14 believe?

15 A. Yes, I am.

16 Q. And does that contain your prefiled direct
17 testimony in this docket?

18 A. Yes.

19 Q. And do you adopt that testimony in whole as
20 part of this proceeding?

21 A. Yes, with some corrections.

22 Q. And would you care to give us the corrections
23 please, the portions of the testimony that you
24 would correct?

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[WITNESS: Knepper]

1 A. Sure. You want me -- I'll go through them
2 orally one-by-one. Bates Page 013 -- first of
3 all, I have 11 revisions. The first one is on
4 Bates Page 013, my testimony, Line 19. The
5 number should be -- "385" should be replaced
6 with "347". On that same Line, "224 percent"
7 should be "196 percent". The "385" was an
8 estimated number of bare steel services; they
9 actually replaced 347.

10 Bates Page 013, Line 20, the number
11 "17 percent" and "14 percent" should be
12 replaced with "3 percent".

13 Number 3, on Bates Page 013, Footnote 7
14 should read "347 divided by 338" is
15 "3 percent", instead of "385 divided by 338" is
16 "14 percent". And Footnote 5 should read
17 "Column AD", not "AC".

18 Bates Page 013, Lines 22 and Lines 23, the
19 number "7" should be replaced with the number
20 "6". So, Page 13 for me was a horror show.

21 *[Laughter.]*

22 **CONTINUED BY THE WITNESS:**

23 A. Bates Page 014, Table 1, Lines 5 and 6, the
24 subtotal should be "1,208". And "385", for

[WITNESS: Knepper]

1 Fiscal Year 2017, that should be changed to
2 "347".

3 Bates Page 015, Line 1, "9.54 miles"
4 should be replaced with "9.41 miles". And the
5 "385" services should once again be replaced
6 with "347".

7 Bates Page 015, Line 2, and Line 4, the
8 number "24" should be replaced with the number
9 "25".

10 Bates Page 015, Line 2, delete the word
11 "million".

12 Bates Page 015, on Footnote 9 should say
13 "Discovery 1-1 Attachment RGM-DBF-2, Column AD,
14 Line 44" and "Column AV, Line 43".

15 The tenth correction I have is Bates Page
16 020, Line 5, delete the words "Liberty provided
17 a Yes".

18 And on -- the last one I have is the
19 Commission can ignore Bates Pages 032 and 033
20 of my testimony. Although they're part of
21 Attachment J of the Settlement Order of Docket
22 DG 11-040, they inadvertently got included and
23 they have nothing to do with the CIBS Program.
24 And I think that's it.

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[WITNESS: Knepper]

1 Q. And just -- so, we want to note that your
2 revision, ninth revision, the number on Column
3 AV, Line 43, is what?

4 A. "7,493,962".

5 Q. Okay. Any other corrections?

6 A. I hope not.

7 Q. And then, would you just care, for the
8 Commission, to briefly summarize your testimony
9 today, what your position -- the Staff's
10 position is in this matter. And, then, I
11 intend -- I know you have two documents in
12 front of you, and I intend to address those
13 after you just give me a brief summary of your
14 position.

15 A. So, this is our ninth year of this Cast
16 Iron/Bare Steel Program. We have reviewed
17 Liberty's Petition, they're accompanying
18 testimony. We issued two rounds of discovery.
19 We conducted a technical session. All in
20 trying to reconcile and approve the costs
21 associated with the Fiscal Year 2017 Cast Iron
22 and Bare Steel Program.

23 As I stated in my testimony, I believe the
24 following practices should be continued:

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1 Submission of the final petition each year by
2 April 15th. That's in order to, you know,
3 allow them to get rates into their July bills.

4 I still believe continued requirement of
5 cutting off the physical segments of the bare
6 steel main replacements, and the testing, the
7 associated testing with those should be
8 continued.

9 I still think that, by December 31st,
10 2017, they should -- the results of attaining
11 customer conversions or attracting new
12 customers along segments should be continued.
13 In regards to that, I'd like to see a
14 discussion regarding the success of extending
15 the 100-foot free service installation policy
16 to those who don't currently have gas service
17 along the CIBS, and see if that's been
18 successful or not.

19 And, last, I believe we should continue
20 with the audits. We did complete an audit of
21 the Fiscal Year 2017 Program, and I believe
22 another one should be done for Fiscal Year
23 2018. And that's really because of the amount
24 of dollars that we're talking about associated

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1 with this Program. I think it warrants having
2 an audit done with the Audit Department. I
3 believe the Fiscal Year 2017 results found no
4 deficiencies in their accounting of this
5 Program. So, that's a good thing.

6 The last thing I think, I think the
7 adjustment of the revenue requirements to
8 exclude the excess costs associated with the
9 five carryover projects from Fiscal Year 2016
10 should be there for the amount of \$47,976.

11 We don't approve the inclusion of excess
12 carrying costs beyond what's in the Settlement
13 Agreement. The ensuing results of that revenue
14 requirement calculation decreased by 5,375, to
15 688,807, as opposed to 694,182 as filed by the
16 Petition of Liberty. And that would be
17 outlined in these revisions that Mr. Simek made
18 for us on June 16th, 2017.

19 Q. So, the revisions that you've just referenced,
20 I have put in front of you two documents, one
21 labeled "Attachment DBS-1", dated June 16th,
22 2017, --

23 A. Correct.

24 Q. -- and the other one is dated -- also dated

[WITNESS: Knepper]

1 June 16th, 2017, and it's "Attachment DBS-2".
2 Those documents have been currently marked as
3 Exhibits "3" and "4", respectively, --

4 A. Right.

5 Q. -- for submission to the Commission. Can you
6 just briefly describe what each of those
7 documents represent, as they were prepared by
8 the Company in response to an email request
9 from you?

10 A. Yes. Mr. Simek has created a spreadsheet that
11 readily allows, if there's a minor change to a
12 portion of the Program, to quickly recalculate
13 things. And, on DBS-1, I highlighted, I don't
14 know if the highlights came through for people
15 or not, but Lines 1 and 2 got changed, and the
16 resultant is on Line 39, which is that
17 "\$688,807" figure.

18 That same Line 1 and 2, on Page 1 of that,
19 gets transferred to Page 2 of it, and the
20 resultant shows up on Line 46 of "600,433".

21 Page 3 of 4 of that, there's no changes.
22 That's just a tax percentage of net plant. And
23 then the last thing is, on Page 4 of 4,
24 "688,807" shows up on Line 1, which I believe

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1 comes from the resultant that was on Page 1 of
2 4. And, with that, it shows what the impacts
3 are.

4 So, the bottom line is that "47,976" of
5 this isn't going to have any noticeable impact
6 on customers. I just believe it should be, for
7 consistent purposes, last year we didn't allow
8 it, and next year is going to be quite a big
9 dollar amount because of the projects they
10 didn't get finished, going forward, I think we
11 should be consistent upon that. So, that's
12 what that does.

13 In Exhibit 4, which is DBS-2-two, the same
14 thing, the numbers that got changed were on
15 Page 1 of 4, Lines 1 and 2, and the resultant
16 on Page [Line?] 39 got changed. Page 2 of 4,
17 Line 1 and Line 24 get changed, and the
18 resultant ends up being on 46. Page 3 of 4, no
19 changes. And, again, on Page 4 of 4, Line 1
20 got changed to "690,993". And that's just --
21 DBS-2 is just for informational purposes. That
22 we keep track of the Cast Iron/Bare Steel
23 Program, we're looking for historical costs,
24 regardless of whether the Company files some

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1 rate cases in between, which would do a
2 resetting of rates. And, so, we're trying to
3 keep track of, since the inception of the
4 Program, how much has been totally spent. And
5 that's what that exhibit does.

6 The other things, I guess, I was
7 unfamiliar with the Supreme Court decision that
8 came out. So, I was hoping it would be
9 different. And, going forward, I think we're
10 going to have to kind of figure out how that is
11 going to get affected and how they're going to
12 recover that. Whether that's done with the
13 remaining -- there's portions of the CIBS that
14 aren't recovered immediately, there's a whole
15 range of those, and whether that gets recovered
16 in rate cases. I think, in the next year's
17 Program, they will be able to be allowed, the
18 costs that are determined associated with that,
19 but the question is is, these ones that have
20 piled up over the last four years, I think it's
21 been four years that the Manchester fees have
22 not been included, although the Company is --
23 separately kept track of them, and I think they
24 have -- are able to identify what those costs

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1 are, as Mr. Simek said.

2 And, then, the last comment I'd like to
3 make is, you know, I welcome Liberty's goal of
4 trying to meet the 2024. It's a goal. I think
5 there's going to be challenges associated with
6 that this next year, well, the current year
7 that we're in, which is Fiscal Year 2018. They
8 plan on replacing the most ever cast iron and
9 bare steel that they ever have, and the most
10 number of bare steel services by a substantial
11 amount.

12 So, any time you increase your workload by
13 that, I'm always cautious, because, you know,
14 the systems have to be able to absorb all that,
15 as well as not make mistakes that go along with
16 it. So, your quality of work, your
17 communications have to be better, your
18 oversight has to be better, your scheduling has
19 to be right on. There's just a lot of work
20 that has to go with it.

21 That being said, removing this old 90 year
22 old/100 year old pipe I think is in the best
23 interest of the public and of the Company.

24 Q. And then I just wanted to add a couple more

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[WITNESS: Knepper]

1 questions about your thoughts on when -- when
2 do you consider a project complete in your mind
3 and what is sort of a rational percentage that
4 should be included as a carryover cost, if that
5 is to continue? Do you have some thoughts on
6 that in closing?

7 A. Yes. "Complete", in my mind, is not until
8 you've done the final restoration not until the
9 last work order is completed and finalized in
10 their system. It wouldn't be until they have
11 repaved and other final paving, or, if they're
12 going through grass areas, it's been
13 re-grassed. In my mind, that's when a
14 project's done.

15 You can have the gas flowing, and you can
16 have a good portion of it done, but it's not
17 completed until the last thing is done. And I
18 think that's pretty standard in the
19 construction industry. And these projects --
20 and that's why they get recovery for portions
21 of the CIBS and not 100 percent. And that's
22 why, when they don't, we call those things that
23 aren't done "carryovers", that they continue on
24 until the next season. So, that's what I

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[WITNESS: Knepper]

1 consider a "complete" project.

2 The Company, I think they have a different
3 view on that than I do.

4 And, then last, what was the second
5 portion of the question?

6 Q. About the percent, in terms of percentage
7 terms?

8 A. Yes. I did read their testimony. And I think,
9 in their testimony, they were looking for --
10 one of the suggestions was to increase the 5
11 percent carryover cost to 15 percent. And, at
12 this point in time, I'm still not inclined to
13 do that. I think it opens up a whole bunch of
14 increases about opening up settlement
15 agreements and changing a whole host of things.

16 So, never was this Program ever meant to
17 capture 100 percent of their costs. I think it
18 still captures a high percent of the costs that
19 are incurred. I believe it's somewhere in the
20 order of 75 percent, which is a significant
21 incentive for the Company to participate in the
22 CIBS system -- Program. And we've seen that
23 the Company has, since Liberty has taken over,
24 they ramped up their numbers. So, I think it's

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1 important to them as well.

2 MR. CLIFFORD: Thank you. No further
3 questions.

4 CHAIRMAN HONIGBERG: Mr. Sheehan.

5 MR. SHEEHAN: Thank you. I don't
6 plan on revisiting the back-and-forth about
7 carryover costs that we went through last year.
8 We made whatever points we're going to make. I
9 do have one area, though, with regard to
10 carryover costs, that I would like to cover
11 with you.

12 **CROSS-EXAMINATION**

13 BY MR. SHEEHAN:

14 Q. First, the Settlement Agreement at issue, which
15 is at RSK Attachment 2, Bates 029, lists
16 categories of spending that are not included in
17 the CIBS. And I'll just read it, because it's
18 short, are "carryover costs in aggregate
19 exceeding 5 percent of the approved estimated
20 total expenditures under the CIBS Program for
21 the construction year, unless approved by the
22 Safety Division." That's the language we've
23 been talk about with carryover, is that
24 correct?

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1 A. Yes.

2 Q. So, if our carryover is under 5 percent of the
3 budgeted number or estimated number, we would
4 recover all of it, if it's less than that
5 5 percent, correct?

6 A. Five percent or less, yes.

7 Q. So, we're only talking about when the carryover
8 cost whatever is greater than 5 percent of that
9 estimated figure?

10 A. Yes. And it's based on estimates, not actuals.

11 Q. Right.

12 A. And the estimates tend to be higher than the
13 actuals.

14 Q. And taking one step back, the purpose of the
15 CIBS Program, in general, is to provide an
16 incentive for the Company to focus on CIBS
17 through this yearly recovery, rather than
18 waiting for rate cases that happen at a slower
19 pace, is that correct?

20 A. I think it's to reduce the lag in between rate
21 cases.

22 Q. And one of the reasons in your testimony, both
23 last year and this year, to support your being
24 firm on the 5 percent carryover, is just that.

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[WITNESS: Knepper]

1 And, if you were to turn to Page 24, I
2 believe, --

3 CMSR. SCOTT: Could you tell us which
4 24, which document?

5 MR. SHEEHAN: Mr. Knepper's
6 testimony.

7 CMSR. SCOTT: Thank you.

8 BY MR. SHEEHAN:

9 Q. I'm sorry, Page 18. 18 and 19 is where you
10 list eight reasons to, as you say, be
11 consistent with the 5 percent carryover rule.
12 Do you see that?

13 A. Yes.

14 Q. And the eighth was: "Finally, the Company will
15 suffer minimal financial harm and any
16 associated lag would be minimal given the
17 frequency of rate cases Liberty has chosen to
18 file recently." Correct?

19 A. *(No verbal response)*.

20 Q. So, what you're saying is, to the extent we
21 miss it in the CIBS filing, we can pick up
22 those excess carryover costs in a rate case?

23 A. Yes. What I'm saying is, when that was
24 written, that provision was written, it had no

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1 knowledge of how frequently the rate cases were
2 going to be filed. And, prior to that being
3 written, it was a much longer extended period.
4 So, if you shorten it, the lag is smaller.

5 Q. But the expectation, from Staff's perspective,
6 is, to the extent the Company doesn't recover
7 100 percent of CIBS costs in CIBS, the rate
8 case, whenever it may be, is ready to catch
9 that last 25 percent?

10 A. Correct. Correct.

11 Q. And in this, the number in front of us today,
12 the 48,000, as I understand it, that is work
13 done mostly in 2015, the carryover happened in
14 the Spring of 2016, and now we're addressing it
15 the next year, is that correct?

16 A. I think it was work done -- oh, boy. Let me
17 get my year right.

18 Q. I know. It's confusing. I had to think it
19 through.

20 A. Maybe say that again here. Let me think about
21 that.

22 Q. Pipe in the ground the Fall of 15, final paving
23 in the Spring of 16, part of the CIBS case --

24 A. Yes. So, it was the beginning of '16, correct.

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[WITNESS: Knepper]

1 Q. Okay.

2 A. It's work that didn't get completed in '15, and
3 they have to basically, in my opinion, that's
4 the work that they start immediately in '16.
5 So, what -- and then they don't get recovery of
6 it until '17. They could never get recovery in
7 '16. The Company's systems just don't work
8 that fast.

9 Q. Right. And you're aware we have a rate case
10 before the Commission right now?

11 A. Yes.

12 Q. And that was filed a couple months ago, with a
13 2016 test year?

14 A. Yes.

15 Q. And requests for a step adjustment for 2017
16 costs?

17 A. I assume so, yes.

18 Q. Okay. To the extent this \$48,000 was spent in
19 2016, and assuming it meets the prudence
20 requirements for a rate case, it would be
21 reasonable to include that \$48,000 in the
22 pending rate case. Do you agree?

23 A. I would think so. I don't know if you've
24 already included it in your filings.

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1 Q. I can represent to you that we did not, partly
2 because it was included in the CIBS filing.
3 And understanding you have the right to, as you
4 have done, deny that request, would it be
5 Staff's position that the rate case would be
6 the appropriate place to pick up that \$48,000?

7 A. I would think so. I would think you would get
8 all the stuff in '16, plus the prior years,
9 your \$500,000 that's each and every year, you
10 would get all the plastic and all the stuff
11 that was done prior up until that year of
12 whatever the test case is.

13 Q. And, if you take a real big step backwards,
14 without the CIBS Program, all of the CIBS --
15 what we now call "CIBS work" approved within
16 CIBS or excluded under these rules, could just
17 be the costs of a regular rate case every --
18 whenever we decided to file them, correct?

19 A. I would think it would be recoverable in rates.

20 Q. Again, assuming that we dot all the i's and
21 cross the t's as necessary?

22 A. And putting in the municipal work and all the
23 municipal projects, if there's a municipal
24 project, and you don't get it paved, the same

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1 thing. All that gets thrown into rates.

2 Q. Okay. And, if it did not get included in the
3 current rate case, then there would be a delay
4 of two, three, four years, until we file the
5 next one to recover this \$48,000, correct?

6 A. Yes. I just don't know how often. But it
7 appears like you're filing them every two to
8 three years. I don't know if that's a policy
9 or just by circumstance.

10 Q. The current rate case has a 2016 test year.
11 Assuming, and nothing is carved in stone, the
12 next one is a 2019 test year, which typically
13 means a 2020 filing, and temporary rates in the
14 Summer of 2020.

15 A. Uh-huh.

16 Q. If the 48,000 wasn't included in the existing
17 rate case, we would not recover that until
18 20 -- beginning 2020, again, assuming those
19 timelines. Is that correct?

20 A. I believe so.

21 Q. And that's not the intent of CIBS to cause that
22 kind of delayed recovery?

23 A. The intent of CIBS is to get the Company -- the
24 original intent of CIBS was to externally drive

[WITNESS: Knepper]

1 your replacement rates. Now, there's a lot of
2 ways to do it. And we don't have to, if we're
3 going to modify the CIBS Program, there's a lot
4 of ways to modify it in a lot of areas. And I
5 probably just wouldn't tinker with one, I would
6 probably tinker with a lot of it. But --

7 Q. All right. I guess what -- no, go ahead.

8 A. So, I guess my point would be is, I look at it,
9 in my mind, as externally driven projects
10 versus internally driven projects. And, so,
11 you know, it used to be that the Company was
12 really pushing, they were relying on the
13 municipality, and only waiting for to try to
14 take advantage of them paving the roads and
15 trying to coordinate.

16 But, with this, I think the Company has
17 recognized that this leak-prone pipe has got to
18 come out of the ground at some point in time.
19 We have reached the end of the life of the
20 pipe. The samples that we have have holes in
21 them. We want you to internally, you know
22 drive, where those projects should be.

23 And we've been very reluctant to say how
24 much and how fast and how hard, just kind of

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1 given some general parameters and let the
2 company manage it from there.

3 I don't necessarily believe it's based on
4 the recovery mechanism. The recovery mechanism
5 is just one part of it. And it really should
6 be the secondary part. And the primary part
7 should be to reduce the amount of leakage and
8 to increase the safety on your system.

9 Q. Understood. I guess my question was, there
10 wasn't -- correct me if I'm wrong, the intent
11 of the CIBS was not to delay recovery of costs
12 that would -- to year four that would otherwise
13 be recovered in year one?

14 A. It was to give a partial incentive of some of
15 the costs that could be recovered. Never full,
16 and it was never meant to recover everything.
17 So, if the Company was bringing meters from
18 inside to out, and they did that at the same
19 time they were doing CIBS, which is a good
20 thing, you would just recover that cost as part
21 of a regular rate case.

22 If you were doing -- replacing plastic
23 stuff, if you were already doing your cast iron
24 encroachment, if you were already doing

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1 municipal work, it's not to bring all those
2 costs forward. So, the recovery aspect of it
3 is not the sole purpose.

4 Q. Understood.

5 A. It's a portion of it.

6 Q. And I'm just trying to understand that there is
7 that incentive, some accelerated recovery, and
8 not full accelerated recovery.

9 A. Right.

10 Q. And, so, those costs that were not accelerated,
11 there should be no penalty that flows from CIBS
12 unintentionally. Would you agree with that?

13 A. I'm not sure what's considered a "penalty".

14 Q. An example, in the case in front of you, the
15 \$48,000, if it's not included in the current
16 rate case, we would not begin to include --
17 recover that for three more years, and that
18 could be conceived as a "penalty". Agreed?

19 A. Sure.

20 Q. Okay. My last topic is that same issue -- go
21 ahead.

22 A. I mean, you could artificially say that there
23 isn't any, and then you would have no penalty.
24 But that doesn't necessarily mean that

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1 carryover costs will be reduced.

2 Q. The same issue exists with the pipe we put in
3 last year, 2016, and have a carryover this
4 spring, 2017. You, in your testimony, have
5 estimates of those numbers, and that is
6 applying the 5 percent rule would result in a
7 \$1.4 million excess carryover, correct?

8 A. Yes.

9 Q. And, so, next year, when we're at CIBS,
10 assuming CIBS doesn't change through the rate
11 case, and if you apply the 5 percent rule as
12 you have consistently, that 1.4 million would
13 not be recovered through CIBS, correct?

14 A. Yes.

15 Q. And, similarly, with the 48,000 that's from
16 this year's case, that one -- assuming it turns
17 out to be exactly 1.4 million, the numbers will
18 come when they come, was spent in 2017, should
19 be spent in 2017, correct?

20 A. I'm sorry. Say that again, Mike.

21 Q. The excess carryover in 2017 is \$1.4 million,
22 estimated to be?

23 A. Yes.

24 Q. That money was for paving done this year, to

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1 finish last fall's projects.

2 A. I don't know if it's been completed yet, but --

3 Q. Assuming it was, that's the understanding of
4 that number, correct?

5 A. And I don't know if it will actually be 1.4, it
6 could be less. But, traditionally, it's come
7 in a little bit slightly less, because by then
8 they -- the estimates, they know exactly what
9 the square footage is and what the cost of
10 paving materials are and things like that. But
11 it's approximately 1.4, so --

12 Q. Accepting those caveats, and I agree with you,
13 we don't have a firm number, but there will be
14 a roughly \$1.4 million excess carryover --

15 A. Uh-huh.

16 Q. -- from the '16/17 construction season,
17 correct?

18 A. Yes. But that's just for the paving, yes.

19 Q. Carryover is almost always just paving,
20 correct?

21 A. Yes.

22 Q. Going back to the pending rate case, is there
23 anything that Staff would object to, including
24 that \$1.4 million, as part of the step, because

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[WITNESS: Knepper]

1 these are costs incurred in '17 that would
2 otherwise be recovered in a rate case?

3 A. I can't speak for the Gas Division, but I know
4 the Safety Division doesn't see anything that's
5 going to cause a problem for doing that.

6 Q. Otherwise, it would be 2020 before we started
7 recovering those costs in the next rate case,
8 correct?

9 A. Yes. Well, when you say "2020", it's
10 whatever --

11 Q. Again, assuming --

12 A. I have no idea when you're going to file your
13 next rate case, and how and what amounts. So,
14 if you say it's going to be three years, yes.

15 MR. SHEEHAN: Okay. Understanding
16 you don't know, and neither do I.

17 That's all I have. Thank you.

18 CHAIRMAN HONIGBERG: Commissioner
19 Scott.

20 CMSR. SCOTT: Thank you. And good
21 afternoon.

22 BY CMSR. SCOTT:

23 Q. You heard me discussing with the last panel the
24 cost per mile and how it had gone down?

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1 A. Yes.

2 Q. I was curious, you have -- you're involved
3 nationally, and certainly you're involved with
4 the other gas utility in New Hampshire. How
5 does -- do you have a feel for what that cost
6 per mile, is that consistent with what we see
7 for others?

8 A. I don't know.

9 Q. It's a fair answer.

10 A. I mean, I could do that research. I'd have to
11 do that research. But, even if I did the
12 research, unless you know all the components
13 that are going into it, it gets very difficult.
14 You know, comparing our -- what it costs in New
15 Hampshire to what it costs in Baltimore, what
16 it costs in New York City, what it costs in
17 Dakota, it's hard.

18 We've tried to do that analysis. We kind
19 of gave up on it. But the answer is, I don't
20 know.

21 Q. Let me ask it another way. Are you -- does
22 their cost per mile concern you? Is that a
23 problem, in your view?

24 A. I think it's -- well, I think they're now

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1 hitting a point where it's not so much overhead
2 costs that are driving it, that they actually
3 are getting probably more of a sweet spot,
4 where you're doing enough pipe a year that
5 these cost burdens aren't overwhelming it.

6 You know, if you were to look at I think
7 in my testimony -- and maybe it's not there.
8 We had looked at -- I had done another graph
9 where it's certainly better than when it was
10 National Grid. Those cost burdens were too
11 high, because the amount of pipe that they were
12 replacing was too small.

13 I don't know if that is the one component
14 or whether they're managing it better. I think
15 the Company is definitely focused on it.
16 They're paying much more attention to it.
17 They're starting to do more neighborhoods. All
18 those things drive costs down. It's changing
19 things. Their contracts are changing with
20 their contractors. So, it's really hard, when
21 you want to do a historical comparison over the
22 years, because there's a lot of things moving.

23 The purpose of those graphs is just to
24 kind of give you a general feeling "is it going

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1 up, down, or sideways?" And I would expect it
2 to probably -- there's only going to be so much
3 point that they can drive it down, and then it
4 will be pretty flat, the costs are going to be
5 the costs.

6 Q. Thank you. Do you have any concerns about the
7 Company's ability to meet the 2024 target,
8 given the current trajectory?

9 A. I think it's quite aggressive. But we'll play
10 it out year by year. You know, we'll see how
11 much this year is. You know, they're doing, I
12 think, 40 percent more than what they did last
13 year, and the year before was 40 percent more.
14 You can't just keep that trajectory going. So,
15 we'll see.

16 But sooner -- I'd rather get it out sooner
17 than later. And this stuff is already old and
18 already leaking. And, if you look at some of
19 the reports, it should have been taken out
20 many, many years ago. So, I'm eager to get it
21 out.

22 Q. Is 2024 an acceptable --

23 A. That's seven years. I think it's consistent
24 with about three years ago I made some comment

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1 to "try to get it out in ten years". So, the
2 answer is "yes".

3 But, you know, all it takes is a hiccup
4 one year or something, they can't -- they have
5 some large other project they have to complete,
6 and it just puts that burden on the remaining
7 portions. And, as the timeline goes down, and
8 if you miss a certain year, it really puts even
9 more of a challenge on the remaining years.

10 So, seven years, I think it's consistent
11 with, you know, what we've been talking about.
12 But I'm a little worried, because it's -- I
13 don't think it's a slam-dunk and it's easy to
14 do that.

15 Q. And I think in your opening statements from
16 where you are, you mentioned you're interested
17 in, I don't remember your exact words, but you
18 referenced a "line extension policy and
19 extending beyond 100 feet". Can you elaborate
20 on what you meant by that?

21 A. Yes. I think it was in, I could be wrong, but
22 I believe it was August last year, as part of
23 another docket, managed expansion project
24 dockets, you included in your order that, and I

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1 think the Staff agreed and the Company agreed,
2 that, as part of the CIBS, that they would
3 allow the customers who were along that to not
4 necessarily have to convert their system, that
5 they could give them -- use that policy to
6 extend the service, even if they weren't using
7 it for heating.

8 So, I just want to see if that is actually
9 helping attract customers or not. We haven't
10 had a complete season where that occurred.

11 Q. That helps. I thought you were implying they
12 weren't using that, and I was confused.

13 A. I don't know, because they didn't talk about it
14 in their update to us.

15 CMSR. SCOTT: Thank you.

16 CHAIRMAN HONIGBERG: Commissioner
17 Bailey.

18 BY CMSR. BAILEY:

19 Q. I'm trying to get a handle on this carryover
20 cost thing, I know.

21 A. Okay.

22 Q. Sorry. So, you and the Company don't disagree
23 when a project is complete, is that right?

24 A. I think we do.

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1 Q. Oh, you do?

2 A. And I think, in their testimony last year, if
3 you look at the transcripts, and I think if you
4 look at some of the responses to us, they
5 consider "completed" when they have tied over
6 the service and they have gotten the
7 functionality of the gas system done.

8 Q. Oh. So, that is why they think they can
9 estimate the cost for road restoration and the
10 project is complete, so they should be allowed
11 to recover the costs in that fiscal year?

12 A. I think it's one of their arguments.

13 Q. Okay. So, let's say you both agreed that the
14 project wasn't complete until the road was
15 restored. But it sounds to me like some of the
16 reasons why the road isn't getting restored by
17 the end of the fiscal year are more
18 cost-effective than they might otherwise be?

19 A. It can be. Yes.

20 Q. And, so, wouldn't you want to give them an
21 incentive to do that?

22 A. I think they're already getting an incentive,
23 is my point.

24 Q. What's --

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1 A. You're getting partial recovery. And, so, it
2 does not explain why you didn't get the ones
3 done in Nashua. It does not explain why you
4 didn't get the ones done in Manchester. When
5 Concord is the one who wants you to keep it
6 over in the season, when I say "season", the
7 winter season. You know, this purpose, when we
8 wrote this Program, was to get this stuff done
9 in a construction year. That was the time
10 frame in which we were talking about. So, now
11 we're talking about changing that whole -- that
12 whole, you know, should it be a year and a
13 half, should it be two years?

14 Q. But they're --

15 A. But my point would be is, the construction
16 season is defined in the Settlement Agreement.
17 And, so, now we're talking about parameters
18 outside of that.

19 Q. I understand that. And that presents its own
20 set of difficulties, because that Settlement
21 Agreement was with more parties --
22 comprehensive and with more parties than that.
23 But, I mean, I almost heard you say that you
24 would be impressed if they got all this work

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1 done by 2024, not your words, my words. But
2 that they're trying really hard and that
3 they're being very aggressive. And, so, they
4 have to prioritize certain things.

5 A. (Nodding in the affirmative). But I guess,
6 again, back to the recovery should not -- you
7 should do things for the lowest cost for the
8 customers, regardless of how you get stuff
9 recovered.

10 Q. And that's -- okay. That's true. And they're
11 trying to do that --

12 A. And second to that is "how are you going to
13 recover it?" But the recovery shouldn't drive
14 how you do your work.

15 Q. And I don't think it is now. But is it
16 possible that it might?

17 A. I hope that's not how it drives their work. I
18 hope looking at what they have in their system,
19 how old it is, how many leaks they're having,
20 how many times they have go back there, how
21 much -- looking at their exposed pipe surveys,
22 all that's driving where they think they should
23 be doing and how much they can manage it within
24 a year.

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1 That's how it appears to me. I mean,
2 after nine years, I would have thought that we
3 would have gotten rid of all the pipes with the
4 holes in them. That's not happening.

5 Q. How many --

6 A. So, if you look at this year's, there's just,
7 you know, the holes are even getting bigger and
8 worse on these bare steel mains. So, it tells
9 me that we haven't -- the rate that we're doing
10 it, and increasing the rate, that's the
11 ultimate feedback to me is that I'm okay with
12 upping the rate of replacements.

13 Q. Can you look at Page 11 in your testimony? Is
14 that the graph that you were looking for?

15 A. No. I'm thinking of a graph that's on my
16 laptop.

17 Q. Okay. Well, can you tell me on this graph
18 where Liberty took over?

19 A. I believe Liberty took over in 2014. So, you
20 can see it dropped from 250 to 150?

21 Q. Right.

22 A. And, you know, I think it was a combination as
23 to how they did their contracts, the new
24 systems they put in place, and managing it a

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1 little bit more locally, and more focused, that
2 rate dropped a lot. But, once that's done,
3 it's dropped even more because of this ramp-up
4 of --

5 Q. Miles --

6 A. -- miles.

7 Q. -- installed.

8 A. I think, in '14, they were, you know, they were
9 only at up to, well, in Fiscal Year '14, they
10 were at 3.51 miles, and now they're doing
11 triple that almost, and are about to do
12 quadruple that.

13 Q. So, they're taking it pretty seriously?

14 A. Yes.

15 Q. Very seriously, and that's good. Would the
16 Settlement Agreement -- oh, let me back up. I
17 think I heard one of your concerns about
18 authorizing carryover greater than 5 percent,
19 is because they're not actual costs, they're
20 estimated costs that you'd have to approve. Is
21 that one of the concerns, among the other ones
22 that we talked about?

23 A. I'm trying to get a feel on a project what the
24 total cost is. So, I never get a complete

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1 picture until I get the total cost. And the
2 total cost doesn't run into the next year's
3 projects and the next year's projects. And,
4 so, I'll never have a complete picture of what
5 a good estimate is.

6 Q. Well, what if they -- what if they -- I mean,
7 isn't that a reporting problem? What if they
8 gave you an account of actual costs of each
9 project after they were done?

10 A. Well, they do give us the actuals, right? But
11 it's, you know, it's really hard to -- it's
12 difficult for us to track that from the Safety
13 Division. I originally was going to do
14 450 feet, I ended up doing 500 feet. I
15 originally was going to do it on this, but I
16 ended up paying overtime. I originally was
17 going to do this, but I had ledge. I have all
18 these factors involved that make it difficult
19 to actually find out how good their estimating
20 is.

21 In aggregate, they can tell you. But,
22 individually, when you look at each of the
23 projects, they're not -- they're really
24 disparate.

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1 Q. And why is that important?

2 A. Because I think you want to use that estimate
3 to be able to advise you as to what the real
4 cost is going to be going forward the next
5 year. Is it going to be \$15 million? Is it
6 going to be \$20 million?

7 If it doesn't matter to the Commission, I
8 would think it would.

9 Q. Well, yes. It does matter to the Commission,
10 but so does safety. And you -- it sounds like
11 you expect them to get this replaced. If their
12 estimate were 50 percent greater than last
13 year, would you tell them not to do it?

14 A. Probably. I would say we probably -- "why is
15 it 50 percent more than last year?"

16 Q. Yes.

17 A. I would -- we would ask those kind of
18 questions. We would -- you know, we're trying
19 to do this and trying to balance rate shock to
20 customers. And, so, it's a, you know, it's --

21 Q. It's a delicate science.

22 A. Its a delicate science. I don't know if it's a
23 science at all.

24 Q. It's an art.

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1 A. But, you know, and we're trying not to -- I
2 feel like I don't want to manage it any more
3 than what we are. We've asked for a lot. They
4 do a lot of reporting. And, you know, things
5 aren't always going to come out as far as what,
6 you know, if they get it done in a year. But
7 I'm not convinced, in my mind, that they can't
8 get some of these projects completed in a year.

9 Q. All right. One more question.

10 A. Sure.

11 Q. Could you -- would you be able to, under the
12 terms of the Settlement Agreement, approve a
13 little bit less than the estimate of carryover?
14 So, say the carryover came out to be
15 \$2 million, which is well above the 5 percent,
16 but you know, based on history, that their
17 estimates are 10 percent higher than their
18 actuals. Could you approve a carryover that
19 was 10 percent less than what they asked for,
20 and be more comfortable with that?

21 A. I guess changing the terms of the Settlement
22 Agreement at this point in time to me is -- I
23 don't see what that gains.

24 Q. I'm not asking you to change the terms of the

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1 Settlement Agreement. The Settlement Agreement
2 allows you to approve carryover more than
3 5 percent.

4 A. Yes. And I guess, when that term went in, it
5 was more of an exception than a rule. It was
6 not contemplated that this was going to be
7 customary, that this was going to be -- that
8 this would be an unusual event, and it's
9 turning into a usual event.

10 CMSR. BAILEY: Okay. All right.

11 Thank you.

12 CHAIRMAN HONIGBERG: I just want to
13 follow up on what Commissioner Bailey was just
14 asking you, to make sure that I'm on the same
15 page that maybe the two of you were.

16 BY CHAIRMAN HONIGBERG:

17 Q. I think what she was asking you is that, under
18 the current agreement, --

19 A. Yes.

20 Q. -- if they came in and asked for "7 percent",
21 could you say "well, I won't do 7, but I'll do
22 6"?

23 A. I'd have to --

24 Q. Do you consider that to be a legal question you

1 would need to consult with your lawyers about?

2 A. I think so.

3 CHAIRMAN HONIGBERG: All right. But
4 I think that's what she wanted --

5 CMSR. BAILEY: That was the question.

6 CHAIRMAN HONIGBERG: I think that's
7 what she wanted to know. I don't have any
8 other questions.

9 Mr. Clifford, do you have any
10 questions for Mr. Knepper?

11 MR. CLIFFORD: No. I think you've
12 covered quite a lot. Thank you.

13 CHAIRMAN HONIGBERG: All right. And
14 that's all for witnesses, correct?

15 *[No verbal response.]*

16 CHAIRMAN HONIGBERG: All right.
17 Mr. Knepper, you can, I think, return to your
18 seat or stay where you are, it's up to you.

19 I think all that's left to do is to
20 allow the parties to sum up, correct?

21 *[No verbal response.]*

22 CHAIRMAN HONIGBERG: Mr. Clifford,
23 why don't you go first.

24 MR. CLIFFORD: Okay. We're just

1 going to stand on the recommendations of Staff,
2 and ask that Mr. Knepper's testimony be
3 supported in whole, and that the recovery
4 not -- that the requested withheld amount of
5 the 47,000 be granted as described today. We
6 think that's a fair proposition. The Company
7 does have its rate case. We think that that
8 additional recovery requested is -- it's fair
9 game to request that in this ongoing rate case.
10 And that, while we have these two dockets open,
11 we could actually have that, set that
12 discussion concurrently. I think it's a good
13 time for them to do it with respect to the
14 costs that they have -- carryover costs that
15 they have asked for.

16 CHAIRMAN HONIGBERG: Thank you,
17 Mr. Clifford. Mr. Sheehan.

18 MR. SHEEHAN: Thank you. A couple
19 loose ends.

20 The 100-foot policy, Commissioner
21 Scott, I can tell you the sales force are using
22 that aggressively. It's a great tool from
23 them, and they have been working it since last
24 fall.

1 Second, the Company is not driven by
2 recovery in doing the CIBS work. And
3 Mr. MacDonald testified to that fact last year,
4 when we had our lengthy back-and-forth on all
5 these issues. He knows, once he starts digging
6 in the ground in November, that that job is not
7 going to be paved that year, practically
8 speaking. And he's working to as long as he
9 can in each season, knowing full well that
10 those jobs will have extensive carryover,
11 because he's trying to meet the aggressive
12 goals. And, in these past couple years, we've
13 been working right through December, and, as
14 you've said, even into the new year.

15 So, that being said, it's also our
16 job to try our best to recover these funds.
17 And that was the purpose of the line of
18 questioning today, not that that's our primary
19 priority for CIBS, but it's certainly a
20 priority for us.

21 For today, the Settlement Agreement
22 does give Mr. Knepper the authority, which he
23 has consistently exercised not to exceed the
24 5 percent. So, with that, we will accept the

1 removal of the 48,000 from our current filing.
2 So, the numbers in the revised Simek exhibits,
3 which is now Exhibit 3, I believe, the ones
4 that Mr. Knepper read, are the numbers that we
5 accept.

6 The advantage of having the rate case
7 open is we will have this conversation about
8 future CIBS in that case, and maybe we can
9 tweak things and come to an agreement for the
10 next -- the last six or seven years of doing
11 CIBS.

12 So, with that, I ask that you approve
13 those rates as revised. Thank you.

14 CHAIRMAN HONIGBERG: Thank you,
15 Mr. Sheehan. Thank you all. We appreciate the
16 efficient way you've presented this. We will
17 take this under advisement and issue an order
18 as quickly as we can.

19 ***(Whereupon the hearing was***
20 ***adjourned at 2:22 p.m.)***