



**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DG 20-XXX

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Fiscal Year 2020 Cast Iron/Bare Steel Replacement Program Results

JOINT DIRECT TESTIMONY

OF

**ROBERT A. MOSTONE
AND
BRIAN R. FROST**

April 15, 2020

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1 **I. INTRODUCTION**

2 **Mr. Mostone**

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

4 A. My Name is Robert A. Mostone. My business address is 130 Elm Street,
5 Manchester, New Hampshire.

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

7 A. I am employed by Liberty Utilities Service Corp. as the Director of Gas
8 Operations for Liberty Utilities (EnergyNorth Natural Gas) Corp. (“EnergyNorth”
9 or “the Company”).

10 **Q. Mr. Mostone, please state your educational background and professional**
11 **experience.**

12 A. I am a seasoned professional with more than 35 years of field experience with a
13 solid understanding of Gas Field Operations and Construction & Maintenance. In
14 July 2018, I assumed my current position of Director of Gas Operations where my
15 responsibilities include managerial oversight of all gas operations and
16 construction processes. In 2014, I assumed the position of CMS Manager, Gas
17 Operations for EnergyNorth. My responsibilities included business planning
18 strategic and operations for CMS divisions and managing over 50 employees
19 across three gas divisions. From 2012 to 2014, I was the CMS Supervisor, Gas
20 Operations, selected as the lead to transition the Company and employees through
21 new system implementations by managing all aspects of the project. From 1992

1 through 2013, I worked for Colonial Gas Company, Eastern Enterprises, Keyspan,
2 and National Grid in various supervisory roles. I have numerous certificates and
3 licenses in the gas industry and years of leadership training and development over
4 my 35 year career.

5 **Q. Have you previously testified before this Commission?**

6 A. No.

7 **Mr. Frost**

8 **Q. Please state your full name, business address and position.**

9 A. My name is Brian R. Frost. My business address is 130 Elm Street, Manchester,
10 New Hampshire. I am an Engineer III for Liberty Utilities Service Corp. in New
11 Hampshire and provide engineering services to EnergyNorth.

12 **Q. Please describe your educational background and training.**

13 A. In 2007, I received a Bachelor of Science degree in Mechanical Engineering from
14 Rochester Institute of Technology. In the past I have attended the Appalachian
15 Gas Measurement Short Course, the NGA Gas Operations School, and a multi-
16 day formal training class provided by DNVGL, the manufacturer of the software
17 the Company uses to make gas system planning decisions. On an ongoing basis, I
18 regularly complete various self-study training programs on the mapping computer
19 program the Company utilizes to prioritize and manage replacement for gas mains
20 under its CIBS program.

1 **Q. Please describe your professional background.**

2 A. Since April 2016 I have been responsible for project identification and design
3 related to the Company's CIBS program. I have also designed numerous gas
4 distribution system growth and reinforcement projects. In 2019 and 2020 I have
5 provided support to the Company's gas system planning efforts. From 2008 to
6 2016, I worked for New York State Electric & Gas Corporation as an Engineer
7 mainly specializing in the writing and maintenance of gas construction standards
8 and operating and maintenance procedures. In 2005 and 2006, I worked as a
9 college intern at Rochester Gas and Electric Corporation in the Gas Engineering
10 department.

11 **Q. Have you previously testified before the Commission?**

12 A. Yes, I testified in Docket Nos. DG 17-063, DG 18-064, and DG 19-054, the 2017
13 through 2019 Cast Iron/Bare Steel Replacement Program Results dockets.

14 **Q. On whose behalf are you submitting your joint testimony?**

15 A. We are testifying on behalf of EnergyNorth.

16 **II. PURPOSE OF TESTIMONY**

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

18 A. The purpose of our testimony is to explain the Company's annual program report
19 associated with the CIBS main replacement program for fiscal year 2019–2020, or
20 the twelve months ending March 31, 2020 ("FY 2020").

1 **III. IMPLEMENTATION OF THE CIBS PROGRAM**

2 **Q. Please describe the purpose of the CIBS program.**

3 A. The CIBS program was established as part of the National Grid/KeySpan merger
4 settlement agreement approved by the Commission in Order No. 24,777 (July 12,
5 2007) in Docket No. DG 06-107, and the settlement agreement in Docket No. DG
6 11-040 approved in Order No. 25,370 (May 30, 2012). The program's goal is to
7 accelerate the replacement of cast iron and bare steel pipes used in the Company's
8 distribution system, which tend to deteriorate over time. These are pipes that
9 have been in ground and exposed to a corrosive environment and earth movement
10 for a long time, in some cases more than one hundred years.

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

12 A. Under the CIBS program, the Company annually submits to Commission Staff for
13 review and comment its plan for the replacement of cast iron and bare steel pipes
14 for the coming fiscal year, which begins in April.¹ The proposed plan sets forth a
15 prioritized list of pipes to be replaced based on the year of installation, condition
16 of the pipe, and other relevant factors. The CIBS program's mandate is to replace
17 pipes that have a demonstrated prior leak and degradation history. Following
18 review by Staff, including technical sessions between Staff, the Company, and the
19 Office of the Consumer Advocate, Liberty implements the CIBS plan over the
20 course of the construction season, subject to reasonable deviations based on

¹ The CIBS fiscal year begins in April and concludes in March of the following year.

1 circumstances that may arise or additional information that may become
2 available.

3 The Company is required to spend a base amount each year on the CIBS program,
4 which is increased annually using the Handy-Whitman index; the base capital
5 expenditure amount required under the FY 2020 CIBS program is \$549,222
6 (“CIBS Base Amount”). The Company is allowed a permanent increase in its
7 base distribution delivery rates (“Capital Investment Allowance”), effective July 1
8 of each year, to recover the annual revenue requirement for investments made in
9 excess of the CIBS Base Amount during the preceding fiscal year. A copy of the
10 CIBS report is included as Attachment RAM/BRF-1 and includes, among other
11 things, an overview of the actual capital expenditures incurred in implementing
12 the FY 2020 CIBS Plan, and an FY 2020 Condition Bare Steel Main Replacement
13 Program – Sample Analysis, which describes the steel pipe and soil samples
14 collected from CIBS projects completed over the course of the FY 2020
15 construction season. Attachment RAM/BRF-2, referenced within the CIBS
16 report, describes detailed financial figures for the program such as final project
17 actual costs, variances between the initial project estimated costs and, comments
18 on variances.

1 **IV. FY 2020 CIBS PROGRAM**

2 **Q. Please describe the FY 2020 CIBS program.**

3 A. The FY 2020 CIBS program was based on a preliminary project plan developed
4 by the Company and submitted to Staff on January 10, 2019, and revised on May
5 1, 2020. During technical sessions and discussions related to Docket No. DG 19-
6 054, Staff and the Company attempted to reach settlement regarding termination
7 of the CIBS program. In the meantime, the Company commenced construction
8 consistent with the filed FY 2020 CIBS program. Commission Order No. 26,266
9 (June 28, 2019) directed the Company to file results on the FY 2020 CIBS
10 program by April 15, 2020. The FY 2020 CIBS program, presented in both
11 January and May 2019, consisted of 39 projects that included the replacement or
12 abandonment of approximately 12.68 miles of Cast Iron/Bare Steel Leak Prone
13 Pipe. Twenty-nine of the planned projects were completed in their entirety, and
14 seven completed projects had scope reductions during construction. The
15 completed work in FY 2020 eliminated 11.13 miles of leak prone pipe at a total
16 cost of \$21,369,387 (including estimated carryover costs). The program also
17 included the replacement or insertion of 513 associated services, of which 266
18 were bare steel and 247 were coated steel or plastic. As part of the work
19 performed, 230 services were transferred, 20 new plastic services were installed,
20 and 13 bare steel services were abandoned.

1 **Q. Why were there a number of projects with scope reductions?**

2 A. The Company reduced scope on a number of projects late in the year in order to
3 prepare the gas distribution system for winter operation. When it became
4 apparent that construction crews would not be able to finish the entire CIBS plan,
5 the Company used its resource planning tools to identify which projects were not
6 started and could not be completed before year end. In addition, for projects
7 under construction where progress indicated work through the end of the year, the
8 Company identified construction breakpoints that maintained integrity of the gas
9 distribution system.

10 **Q. Is all of the replacement main installed as part of the FY 2020 CIBS Program**
11 **used and useful?**

12 A. Yes. All of the main installed and related capital improvements are used and
13 useful and providing service to customers.

14 **Q. Did the Company replace any other leak prone pipe outside of the CIBS**
15 **program?**

16 A. Yes. In FY 2020, the Company replaced 428 feet of cast iron through the Cast
17 Iron Encroachment Policy and 8,960 feet of cast iron and bare steel through
18 municipal projects, totaling to 1.78 miles of replacement.

1 **Q. How many new gas services were installed as a result of the Company's**
2 **marketing efforts during the FY 2020 CIBS program?**

3 **A.** Twenty new gas services, representing approximately 20 new gas customers, were
4 installed in conjunction with FY 2020 CIBS projects constructed during the
5 program year. The Company has continued marketing to customers along CIBS
6 routes, and generally has not shown a decrease in new customer acquisitions
7 along CIBS routes. For reference, new services installed during the FY 2019 and
8 FY 2018 program years were six (6) and sixteen (16), respectively.

9 **V. COSTS OF FY 2020 CIBS PROGRAM**

10 **Q. What were the total costs incurred during the FY 2020 CIBS program?**

11 **A.** As Attachment RAM/BRF-2 shows, total implementation costs for the FY 2020
12 CIBS program are expected to be \$25,589,515. This number includes
13 \$18,035,529 spent on FY 2020 projects during the program year, \$4,220,128
14 incurred as carryover costs from the prior year's program (FY 2019), and an
15 estimated future carryover cost of \$3,333,858. Of the costs incurred during the
16 FY 2020 program year, \$15,434,483 are eligible for recovery under CIBS rates.
17 This figure only includes costs within the scope of the 5% carryover cap detailed
18 in Commission Order No. 26,266 (June 28, 2019). Within the FY 2020 CIBS
19 program, \$3,532,033 was incurred for unrecoverable costs such as tie-over of
20 plastic services, or replacement of short lengths of plastic pipe where efficient.
21 Additionally, \$3,289,141 was incurred above the 5% carryover cap.

1 **Q. Are there any carry-over costs from FY 2019 CIBS projects that the**
2 **Company incurred in FY 2020?**

3 A. Yes. As shown on Attachment RAM/BRF-2, line 76, column BE, there was a
4 total of \$4,220,128 in carry-over costs from FY 2019 to FY 2020, as compared to
5 \$3,593,321 in carry over costs from FY 2018 to FY 2019. All of the carry-over
6 costs are related to final trench restoration work that could not be completed in the
7 planned fiscal year due to city rules regarding minimum temperature
8 requirements, or a requirement that trenches be allowed to settle for one full
9 freeze-thaw cycle before final restoration.

10 **Q. Is the Company requesting recovery in excess of the 5% carryover cap?**

11 A. No, in accordance with Commission Order No. 26,266 (June 28, 2019) recovery
12 for only 5% of incurred carryover costs is being requested under CIBS rates.

13 **Q. What are the unit costs for FY 2020?**

14 A. The total loaded actual cost per foot for the FY 2019 program was \$384
15 (including both carry-over costs and degradation fees) compared to the estimated
16 cost per foot of \$299 for completed projects. The average variance between the
17 estimated and actual costs of FY 2020 completed projects was 15%. On a direct
18 costs basis, the variance between actual and estimated costs was 27% overall.

19 **Q. What causes have increased unit and overall costs in FY 2020?**

20 A. A number of costs increased in FY 2020 resulting in an overall unit cost increase
21 for gas main and service installation of approximately 13% as compared to FY

1 2019 for several reasons. First, during this CIBS program year the Company
2 substantially eliminated CIBS pipe in historically asbestos contaminated areas of
3 Hudson, the extent of which is difficult to estimate and very expensive to address.
4 Second, the Company continued construction on many arterial streets where,
5 together with a general increase in the amount of CIBS pipe replacement, the
6 Company has continued to see an increase in municipal requirements, such as
7 work hour restrictions and traffic control requirements. Finally, during the 2019
8 calendar year the Company also competitively bid its five-year gas construction
9 blanket contract, which carries higher costs to complete final restoration of started
10 projects. Therefore, increases in construction prices are reflected in future
11 estimated carryover costs which make up part of the overall cost of work.

12 **Q. Please explain why there are fluctuations in the overheads and summarize**
13 **how they are currently allocated.**

14 **A.** Overheads are currently spread on a monthly basis, as opposed to a fixed
15 percentage throughout the year. During the busy construction months, the
16 Company will have a larger pool of direct cost over which to spread the
17 overheads, causing a lower percentage of burdens. The current practice of
18 allocating overheads consists of proportionately allocating categories of overhead
19 cost to the direct capital cost incurred during that month. Labor burden, which is
20 comprised of payroll taxes, pension, time not worked (e.g. vacation time), and
21 benefits, is allocated to the direct capital labor charges from Company employees
22 derived from employee timesheets. Back office work consisting of sales and

1 work package preparation is allocated to the cost of the new services which are
2 constructed. Corporate allocations, insurance, fleet, and telephone/internet are
3 allocated to direct capital costs incurred. Construction supervision, engineering,
4 compliance, and plant accounting is allocated to direct capital costs incurred.
5 This is consistent with the process that has been followed over recent years, but
6 the practice of spreading actual overhead on a monthly basis causes a fluctuation
7 in the percentage of burden applied to jobs.

8 **Q. Have there been any significant variances in the cost of work in the past**
9 **year? If so, please explain the reasons for the variances.**

10 A. No. On an overall spend basis including projects constructed, incurred carryover
11 during the fiscal year, and future estimated carryover, the Company was able to
12 maintain budget within 8%. For FY 2020 projects constructed, the Company's
13 year-end loaded cost variance was 15%. As noted in discussion on program unit
14 costs, this slightly elevated variance was the result of competitively bidding
15 construction work and hard to quantify construction challenges such as
16 environmental contamination. Similar to what Staff has recognized in prior years,
17 although FY 2020 demonstrated variance volatility on an individual project basis,
18 the Company was able to successfully manage the CIBS program as a whole.

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

20 A. Yes.

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