

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

EnergyNorth Natural Gas, Inc. d/b/a National Grid NH

Docket No. DG 10-017

**Rebuttal Testimony
of
Susan L. Fleck**

December 7, 2010

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1 **Q. What is your name and what is the purpose of your rebuttal testimony?**

2 A. My name is Susan Fleck. I filed direct testimony on February 26, 2010 as part of
3 the Company's initial filing in this proceeding. I'm submitting this rebuttal
4 testimony to respond to a number of issues raised by the Commission staff
5 ("Staff") in the testimony filed on October 22, 2010, including Mr. Knepper's
6 expressed concerns regarding the existing cast iron/bare steel ("CIBS") main
7 replacement program, the Company's capital spending plans, the proposed
8 expansion of the CIBS rate adjustment mechanism to include public works related
9 projects, and the Company's sales and marketing efforts, as well as Mr. Frink's
10 suggestion that the Company's peaking facilities are not required to serve its
11 customers needs.

12 **I. CAST IRON/BARE STEEL MAIN REPLACEMENT PROGRAM**

13 **Q. As you indicated, in his testimony, Mr. Knepper raised a number of**
14 **criticisms regarding how the Company's existing CIBS rate adjustment**
15 **mechanism has been working. What is your response to those criticisms?**

16 A. First, I should note that Mr. Knepper is not proposing to eliminate or change the
17 scope of the CIBS program. The Company certainly agrees that, at a minimum,
18 the existing program should be maintained and, in fact, the Company's proposal
19 in this case is to expand the mechanism to eliminate the current exclusion of the
20 first \$500,000 in CIBS-related capital spending and expand the program to
21 include certain non-growth related projects. Second, contrary to what Mr.

1 Knepper's testimony appears to indicate, I believe the CIBS program is well
2 managed and that the collaborative process with Mr. Knepper has worked well.

3 **Q. Why do you say that?**

4 A. The Company's method for selecting main segments for replacement is based on a
5 sound risk-based analytical process that results in "worst first" replacement plans.
6 In accordance with Company procedures, a "prioritization factor" is calculated for
7 each main segment in the distribution system. *See* Attachment OCA 1-83(c),
8 GENG-2050: "Identification, Evaluation and Prioritization of Distribution Main
9 Segments for Replacement," a copy of which is included with this testimony as
10 Attachment SLF-R1. This prioritization factor adds the deterioration factor of the
11 pipe (i.e., the number of leak repairs (steel) or main break repairs (cast iron) over
12 a specified length) to the risk factor of the pipe (i.e., the type of active leaks (e.g.,
13 Gr. 2 leak) and types of building (e.g., hospital) that are in close proximity). In
14 addition, specific to New Hampshire, the Company uses records of exposed main
15 condition to determine the merits of segments of piping considered for
16 replacement. The Company's Asset Replacement group works closely with Field
17 Operations to coordinate the replacement of main segments found to be in poor
18 condition. The list is reviewed and finalized in Gas Engineering and in the field
19 prior to meeting with NH PUC staff. The final Work Plan is then presented to NH
20 PUC staff for input and comments.

1 With regard to reporting processes, the Company has worked with Staff to
2 develop and enhance the reports that we provide and, to my knowledge, all
3 changes to the reporting process that have been requested by Staff have been
4 made. The Company has clearly demonstrated that it is willing to adapt its
5 reporting to meet the needs of the Commission and Staff, and therefore Mr.
6 Knepper's concerns in that regard come as a surprise. If he is suggesting that,
7 because he had to request changes in the format of reports to meet his needs,
8 somehow the program is flawed, I could not disagree more. The Company would
9 be happy to work with Staff to devise reports that better meet its needs, but in the
10 first instance, and in the absence of any proposed reporting format from Staff, the
11 Company has provided the information that it thought was best suited to the
12 program that would allow the Commission and Staff to review the projects being
13 proposed by the Company.

14 **Q. Mr. Knepper has also raised concerns about the Company's cost estimating**
15 **process in both this docket and in the most recent CIBS proceeding. What is**
16 **your response to those concerns?**

17 A. The Company's cost estimating process is sound, and the Company is prudent in
18 its management of controllable construction costs. For example, each project
19 identified for replacement is reviewed by the Construction Division for
20 constructability and to identify any field conditions that would affect the overall
21 cost of the project (e.g., ledge, paving requirements, permit fees, traffic

1 management requirements, etc.). A site visit is conducted by the Construction
2 Supervisor on every project to confirm the project scope, taking into account all
3 known field conditions. The Construction Supervisor generates a project cost
4 estimate utilizing the latest contract bid pricing and the latest historical overhead
5 rates. Once completed, the cost estimates are reviewed against historical unit
6 costs by region and pipe diameter as a secondary validation. At the close of the
7 construction season, and prior to the upcoming construction season, cost estimates
8 are compared to actual costs with key variance drivers identified. These key cost
9 variance drivers are used when formulating the cost estimates for the following
10 year's CIBS program.

11 The Company acknowledges that its estimating process has not always resulted in
12 accurate estimates. National Grid continues to focus on improvements to its
13 estimating process, and believes that, over time, the accuracy of its estimates will
14 improve. It should be noted that one key reason for the variances continues to be
15 overhead costs, which are not always known at the time the estimates are
16 generated, and which much be recovered regardless of the direct cost of the
17 project.

18 **II. NON-GROWTH CAPITAL SPENDING**

19
20 **Q. In his testimony, Mr. Knepper opposed the Company's proposal to expand**
21 **the CIBS mechanism to include public works-related projects in large part**

1 **because, he claims, the Company's projections of its capital spending needs**
2 **are excessive compared to what he believes is required for reliability**
3 **purposes. What is your response?**

4 A. The Company's non growth capital forecast is based on consideration of its
5 compliance needs risk assessment and a review of what is required to maintain
6 system integrity and reliability consistent with public safety obligations and good
7 customer service. In addition, the Company attempts to find opportunities to take
8 advantage of cost benefits that can be obtained by coordinating with planned
9 public works projects. Moreover, the Company is not asking for recovery of any
10 particular capital expenditures through the mechanism at this point; rather, it is
11 simply seeking a mechanism that will allow for more timely cost recovery of
12 public works related projects in addition to CIBS projects. In fact, one of the
13 benefits of the Company's proposal is that, similar to how the existing CIBS
14 mechanism works, under the Company's proposal Mr. Knepper would have an
15 opportunity to review the proposed spending levels each year before the projects
16 are actually constructed, rather than only on an after-the-fact basis as occurs now
17 in a base rate case.

1 **Q. Mr. Knepper also raised concerns with the level of reporting and review**
2 **required for an expanded capital spending adjustment mechanism. Are**
3 **those concerns well-founded?**

4 A. No, I do not believe they are. To the extent that they reflect changes that are
5 needed in the current process for CIBS projects, they can be easily addressed.
6 First, as I noted above, I believe the Company has shown a true willingness to
7 accommodate Staff's requests regarding reporting processes for the current CIBS
8 mechanism. Second, the Company is certainly willing to consider additional
9 reporting mechanisms for an expanded capital investment rate adjustment
10 mechanism. Third, in the Company's initial filing, we proposed a reporting
11 process. If that process is flawed in Staff's mind, we would be happy to consider
12 and implement appropriate changes that Mr. Knepper feels are warranted.

13 Finally, I disagree that such a mechanism would significantly increase the burden
14 on Staff, especially if the reporting process were agreed upon. The Company
15 looks forward to collaborating with PUC Staff to enhance current reporting to
16 better facilitate timely review of the entire CIBS program. I firmly believe that
17 we can create transparent, reviewable reports that will streamline the review
18 process while providing an appropriate level of detail for each project. In fact, I
19 believe it would better accommodate Staff's needs by creating a process that
20 would better inform Staff of the Company's ongoing construction plans than
21 occurs today.

1 **Q. What is the Company's overall perspective with regard to Staff's position**
2 **that the Company's plans for capital spending are excessive and that there is**
3 **no need to expand the CIBS mechanism?**

4 A. The Company feels strongly that an expanded capital spending adjustment
5 mechanism is needed and would benefit both customers and the Company.
6 Nevertheless, given Mr. Knepper's stated position that the Company's capital
7 spending plans should be pared back, the Company is prepared to do so if that is
8 truly the direction that the Staff would prefer the Company take. Certainly,
9 without an appropriate rate adjustment mechanism to address the fact that the
10 Company can no longer count on growth in use to support its non-growth capital
11 investments, it will have to reduce the level of capital spending in New
12 Hampshire. Simple economics dictate that result. If the Company is forced to go
13 in that direction, then capital spending will be limited to those projects that are
14 supported by growth on the system, those that are part of the approved CIBS
15 mechanism, and those that are mandatory to comply with government directives.
16 The Company will always fulfill its regulatory and public safety obligations;
17 however, discretionary projects, even those associated with public works projects
18 (i.e., opportunistic projects undertaken to reduce long term costs), would be
19 postponed or eliminated.

20 **Q. Mr. Knepper's criticism of the CIBS program and his opposition to**
21 **expanding it was also founded in part on his claim that the Company has**

1 **been overly aggressive in deciding to increase the diameter of pipe it replaces,**
2 **without regard to the potential for growth and the actual need for the larger**
3 **diameter pipe. What is your response?**

4 A. I strongly disagree with his criticisms. Mr. Knepper's testimony lacked any
5 specifics and instead was a compilation of statements about his view of the
6 Company's behavior. It is telling that Mr. Knepper did not provide a single
7 example of a situation where the Company has improperly upsized pipe.

8 **Q. Mr. Knepper also criticized the Company's decision-making process for**
9 **determining the size of replacement pipe. What is your response to his**
10 **testimony in that regard?**

11 A. The Company's practice with regard to choosing appropriate pipe replacement
12 size is prudent and based on sound engineering analysis. Whenever gas mains in
13 the system are evaluated for replacement, the size of the main is determined based
14 on the internal diameter of the main, pressures in the area, and the long term needs
15 of the system. A longer term outlook is necessary and prudent to avoid new or
16 replacement main from needing to be replaced (i.e., upsized) or paralleled due to
17 overall system growth. When the material choices were steel and cast iron, the
18 internal diameters (ID) were about the same and were generally considered equal.
19 When plastic pipe was introduced, the outside diameter (OD) of the pipe was
20 made the same dimension as steel to facilitate construction. The wall thickness of
21 plastic main, however, was significantly thicker than steel. As a result, this

1 smaller ID plastic pipe is not considered equal to steel of the same size from a
2 flow perspective. National Grid does not believe continual downsizing of the
3 existing system is prudent and in the long term interest of its customers. The
4 restoration and excavation costs, not the material cost, are the predominate drivers
5 in the final cost of the project and the increased capacity for the small added
6 material cost is prudent. The Company has met with Staff to review pipe sizing
7 and has made some modifications where appropriate.

8 **Q. Similarly, Mr. Knepper also claims that the Company has been overly**
9 **aggressive in other capital replacement decisions. What is your response?**

10 A. Mr. Knepper's testimony on this issue is premised on a single project, involving
11 an expenditure of \$23,421, so it's impossible to know what basis he has for his
12 statements. I do know that the project he points to was absolutely justified
13 because spare parts were becoming difficult to find, the existing block valves were
14 becoming difficult to operate and the project enabled the Company to avoid
15 increases in maintenance and operating costs going forward. The small
16 expenditure involved in this project was needed to improve the reliability and
17 performance of the regulator station. The fact that the one and only example
18 cited by Mr. Knepper to make his point was a project whose cost was only
19 \$23,421 is probably most telling. *See* OCA 2-83, a copy of which is included
20 with this testimony as Attachment SLF-R2.

1 **Q. What was Mr. Knepper's response when asked to provide other examples of**
2 **premature replacement decisions made by the Company?**

3 A. In response to Grid-Staff 49, a copy of which is included with this testimony as
4 Attachment SLF-R3, Mr. Knepper responds that Staff is currently attempting to
5 confirm whether its beliefs on this point are accurate. Not only was Mr. Knepper
6 unable to provide more than one example, he now is questioning whether his own
7 beliefs regarding the Company's replacement decisions can be confirmed.

8 **III. SALES/MARKETING**

9 **Q. Mr. Knepper also criticizes the Company for its approach to sales and**
10 **marketing and claims that it is a significant contributor to the lack of growth**
11 **the Company is experiencing. What is the Company's response to that**
12 **criticism?**

13 A. First, I should point out that Mr. Knepper's approach, even if it were more
14 effective than the Company's approach, would require significant expenditures
15 and staffing increases. The cost-effectiveness of such an approach is highly
16 questionable, and given Staff's position regarding the recoverability of sales and
17 marketing expense, it is also highly questionable whether those costs could even
18 be recovered through rates. Second, the universe of potential customers who
19 could be cost effectively added as new customers is about 7,000. This number
20 represents the approximate number of residents and businesses that reside within
21 100 feet of an existing gas main. It simply doesn't make sense to design a

1 completely separate advertising campaign or substantially increase the Company's
2 sales and marketing expenditures to gain a theoretical maximum of 7,000
3 additional customers.

4 **Q. You indicated that National Grid NH's marketing and sales process is well**
5 **adapted to the New Hampshire market and is cost-effective. Please explain.**

6 A. Again, Mr. Knepper's criticisms are general in nature and provide no specifics.
7 The Company continues to maintain a local business market sales force consisting
8 of two sales representatives and two account executives. In addition, National
9 Grid has replaced its in house residential sales force with a trade ally network.
10 The Company is able to leverage thousands of local plumbers and contractors as
11 its sales force. The trade ally network is local—present in all our New Hampshire
12 towns. National Grid uses this model across all its service territories and has
13 proven itself to be successful. Trade ally plumbers and contractors work directly
14 with potential gas customers throughout the process, including signing contracts
15 with customers. The Company's program includes cooperative advertising with
16 our trade allies for placing ads in local newspapers. National Grid provides New
17 Hampshire specific information to our trade allies. Hundreds of plumbers and
18 contractors receive our informational newsletter, which is customized for the New
19 Hampshire market. In addition, this same group receives periodic emails
20 throughout the month informing them of training opportunities and special offers
21 available to New Hampshire residents and businesses. National Grid works

1 closely with our trade allies to increase their knowledge of our services and the
2 ability of the trade ally network to market our services. National Grid has offered
3 14 technical and sales training sessions for New Hampshire plumbers and
4 contractors during 2009 and 2010.

5 In summary, the trade ally program results in a larger sales force, with better
6 coverage and more insight into local issues in New Hampshire.

7 **IV. PEAKING FACILITIES**

8 **Q. Mr. Frink’s testimony made reference to concerns raised on behalf of Staff**
9 **by George McCluskey in the Company’s integrated resource planning**
10 **(“IRP”) docket, DG 10-041, regarding whether the Company has excess**
11 **capacity that should be removed from rate base. What is your response to**
12 **that concern?**

13 A. As a threshold matter, it is worth noting that Mr. Frink made clear that he is not
14 recommending that the Commission take any action on this matter in this
15 proceeding because it is the subject of another docket. In light of that fact, it is
16 hard to understand why Mr. Frink addressed the topic at all. In response to Mr.
17 McCluskey’s testimony in the IRP proceeding, the Company has propounded
18 thirty-five data requests to Staff on October 15. Responses were due on
19 November 2, but at Staff’s request the time for responding was postponed until
20 late December. The procedural schedule calls for a second round of discovery by

1 the Company, followed by rebuttal testimony and a settlement conference, all
2 prior to any hearing. The Company strongly disagrees with Mr. McCluskey, who
3 has suggested that the Company should retire most of its on-system peaking
4 facilities, something which the Company believes would be extremely unwise,
5 would put the Company in violation of PUC regulations, and is completely
6 inconsistent with prior positions taken by Staff. Since the Staff is not seeking any
7 action by the Commission in this proceeding, the Company does not believe it is
8 necessary to further address the specifics of Mr. McCluskey's testimony at this
9 time.

10 **Q. Does that conclude your testimony?**

11 A. Yes, it does.