STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. _____

Petition of Vermont Gas Systems, Inc. for a change in rates and for use of the System Expansion and Reliability Fund in connection therewith	

DIRECT TESTIMONY OF JOHN ST. HILAIRE ON BEHALF OF VERMONT GAS SYSTEMS, INC.

February 16, 2021

SUMMARY OF TESTIMONY

Mr. St. Hilaire describes the Company's key capital investments in customer service and maintaining a safe, reliable natural gas system. Mr. St. Hilaire also provides an overview of key safety-related operational initiatives including the in-line inspections and the cross-bore initiative. Mr. St. Hilaire also sponsors several exhibits that detail 2021 and 2022 capital spending. Finally, Mr. St. Hilaire provides the forecast of capital expenditures as required by Commission Rule 2.402, which are also expected to support VGS's multi-year rate path under the proposed Alternative Regulation Plan.

EXHIBITS

Exhibit VGS-JSH-1	FY2021 Plant Addition Index
Exhibit VGS-JSH-2	FY2022 Plant Addition Index
Exhibit VGS- JSH-3.1 to 3.12	Specification sheets for plant additions
Exhibit VGS-JSH-4	Attachment 1 to Alternative Regulation Plan—Forecast of Capital Expenditures

DIRECT TESTIMONY OF
JOHN ST. HILAIRE
ON BEHALF OF VERMONT GAS SYSTEMS, INC.

Q1. Please state your name, occupation, and business affiliation.

A1. My name is John St. Hilaire. I am the Vice President of Operations and Infrastructure at Vermont Gas Systems, Inc. ("VGS" or the "Company").

Q2. Please describe your educational background and pertinent professional experience.

A2. I have an Associate in Science Degree in Mechanical Engineering Technology from Vermont Technical College (1989), a B.S. in Business Management from Champlain College (1999), an M.S. in Administration from St. Michaels College (2005), and a B.S. in Accounting from Champlain College (2010). I have been at VGS since 1990 in positions of increasing responsibility. In April 2013, I was promoted to Director, Operations Services, Gas Supply and Gas Control, and in September 2015, I was promoted to Vice President of Operations. In my current position, I have overall responsibility for the design, installation, and ongoing safe operations of the Company's pipeline system. Finally, I am currently serving as the Executive Sponsor of the Company's Customer Information System ("CIS") upgrade project, which is scheduled to be completed in April 2021.

Q3. Have you previously provided testimony before the Vermont Public Utility Commission (the "Commission")?

A3. Yes. I have testified in Docket No. 8472 relating to the Phase VII looping project; Docket No. 7970 concerning natural gas supply and other matters relating to the Addison Natural Gas

Project ("ANGP" or "Project"); and Docket No. 8710 regarding the ANGP budget, schedule, and costs. I have also provided testimony in several other cases involving the ANGP, and testified in Case Nos. 17-1238-INV, 18-0409-TF, 19-0513-TF, and 20-0431-TF relating to plant additions and other issues pertaining to VGS's recent rate cases.

Q4. Please describe the operational priorities reflected in this rate filing and summarize your testimony supporting VGS's capital initiatives.

A4. Our central operational priority remains unchanged: Safe and reliable operation of our system. In this rate filing, VGS is building on this core mission and positioning ourselves to succeed in implementing our Climate Action Plan to further reduce Greenhouse Gas ("GHG") emissions on behalf of customers. In my testimony, I describe specific investments and strategies we are using to minimize system risk and strengthen best practices, while advancing our Climate Action Plan.

I start with providing information and perspective on some key operational safety-related initiatives. I then discuss the Company's capital investments and sponsor several exhibits that provide an overview of the Company's capital spending. This includes $25.3 million the Company will invest between the end of the Test Year and the end of the Rate Year.[1] These investments are detailed in the Cost of Service ("COS") on Schedule 12j to Exhibit VGS-MM-1. In keeping with our effort to make our rate filings easier to access and easier to understand, we have developed an index of these investments for both the remainder of Fiscal Year 2021 and all

[1] The Test Year is calendar year 2020 while the Rate Year is fiscal year 2022, the 12-month period from October 1, 2021 to September 30, 2022.

of Fiscal Year 2022 (see **Exhibit VGS-JSH-1 – FY21 Plant Additions** and **Exhibit VGS-JSH-2 – FY22 Plant Additions**). Exhibit VGS-JSH-1 also identifies differences in costs or timing for FY2021 plant additions from those included in the COS approved in Case No. 20-0431-TF. Consistent with our past practice in rate cases, a more detailed look at each capital investment planned for FY2022 is also provided on the Specification Sheets for each capital project that exceeds $100,000 (**Exhibits VGS-JSH-3.1** to **JSH-3.12**), and I provide a brief narrative summary of some key investments herein.

Q5. Please describe the Company's investments in system safety, reliability, and integrity.

A5. As we have described in prior proceedings, VGS has a variety of safety programs that support our strong safety record. These include ongoing transmission and distribution integrity management programs, our cross-bore program, ongoing leak surveys, mainline replacement work, first-responder training, and pipeline safety management system development, among others. This rate filing reflects continued investment in these key safety programs, including some of the initiatives discussed in more detail below.

Q6. Please describe the Company's Transmission Integrity Management expenses in this case and explain why that work is an important part of VGS's system safety and reliability program.

A6. The transmission integrity work is an investment in the continued safety and integrity of VGS's transmission system. This rate filing includes expenses to conduct several Direct

Assessment ("DA") evaluations and a Close Interval Survey on our 10" transmission pipeline in the upcoming Rate Year.

As discussed in our last rate case, the Company's 10" transmission pipe was installed in the mid-1960s and runs approximately 40 miles from the border station in Highgate, Vermont, to Colchester, Vermont. Under pipeline safety code, VGS has an ongoing obligation to assess the condition of its pipeline on a regular basis. In-Line Inspections ("ILI") are a best practice and the preferred assessment method due to the amount and quality of data that can be collected. An ILI involves passing a series of ILI tools through a pipeline, with the final tool having various sensors to gather data on the integrity of the pipeline. While new pipelines are constructed to accommodate ILI tools, the pipeline safety code provides for other assessment strategies as well. Older pipelines can present challenges for the newer ILI technology, even when gate stations have been retrofitted to accommodate that technology.

In 2020, VGS initiated multiple ILIs for the first time on sections of our 10" transmission line and in advance of federal code requirements to give us sufficient time to complete the required integrity management assessment. An ILI was initiated on the northern section from the Border Station to Nason Street and a short section at the southern terminus from Camp Johnson to the Winooski Gate. Though we were able to run some ILI tools through the transmission line during these ILIs, we were unable to run the final tool that collects the integrity information needed to meet the federal safety code requirement. This process informed our determination that the Lake Road Main Line Valve would require a replacement in order to complete a full ILI in this segment of the pipeline in the future. The capital investments for the Rate Year include this replacement. The southern ILI process also informed our determination that a fitting

configuration would require a replacement prior to completing a full ILI in that segment of the pipeline. VGS is evaluating the configurations and has not included any investments related to that segment in this filing. Prior to any future ILI assessments on the 10" pipeline, VGS will have to address the physical limitations described above. As the 10" line cannot currently be fully assessed using ILI technology, we will conduct two (2) hydrostatic pressure tests, which are now scheduled in 2021 along with the several DAs contained in this COS.[2] These assessments will gather the integrity data needed to meet federal pipeline safety code requirements.

The COS also includes a close interval survey also known as pipe-to-soil survey, which assesses the effectiveness of cathodic protection systems used on buried pipelines. Our annual surveys take pipe-to-soil readings approximately every mile (as required by federal code), but a close interval survey takes readings in a much smaller interval, at under one meter.

Q7. Does this rate filing include funds for VGS's cross-bore program?

A7. Yes, we continue to support our proactive legacy cross-bore program and have included related costs in this case. By way of background, natural gas distribution utilities are required by federal code to develop a Distribution Integrity Management Program ("DIMP") that identifies and addresses risks to the distribution system. The DIMP for many natural gas utilities is focused on replacing miles of old cast iron or bare steel pipe that poses a risk to their system. VGS is in a very fortunate situation because we proactively replaced all cast iron and bare steel pipe many years ago. As a result, our distribution integrity management program can focus on building

[2] A Direct Assessment involves excavating sections of the pipeline and collecting data on the condition of the pipe and coating to determine the overall integrity of the pipeline.

more resilience in other areas. This means that even if we assess the overall risk associated with cross-bores to be low, we are able to prioritize it in our DIMP because it is the highest risk identified in the plan.

A "cross-bore" occurs when a natural gas line traverses through or "bores" a sewer line during the installation of the natural gas line. This is a risk that has emerged more widely in the natural gas industry as "trenchless" installation technology has become more prevalent. Gas companies across the nation are now focused more closely on this risk. In trenchless technology, a natural gas line may be installed without opening a trench and visually identifying the presence of a sewer line. Because most municipal waste-water companies are not required to be members of one-call systems (in Vermont that is Dig Safe), the locations of sewer lines are not always identified prior to construction. VGS is tackling this issue in two ways. First, we put systems in place to prevent cross-bores during installation of gas lines, including identifying customer cleanouts and locating sewer laterals and mains. Next, we have developed a program to address potential "legacy" cross-bores. The last rate case, Case No. 20-0431-TF, included approximately $386,000 for our legacy cross-bore program. VGS will continue this program in the Rate Year at the same expected level, and, therefore, the same level of investment, only escalated by $7,720 for an approximate inflationary adjustment that is included in this rate filing. See Schedule 4 to Exhibit VGS-MM-1.

Q8. Please describe new Operations positions included in this rate filing.

A8. The COS includes costs related to three positions that support ongoing operations activities. Two field service technician positions were vacant for the entire Test Year, and one of

these positions was converted to a meter reader position and was recently filled. A new construction coordinator position is included to support the new customer experience by providing support to the marketing and construction teams to ensure a smooth process for new customer turn-ons. The COS in this rate filing is adjusted so that a full 12-months' salary for all three positions is included in the Rate Year.

Q9. Turning now to capital investments, please provide a general description of the other key capital investments listed in Exhibit VGS-JSH-1 (FY2021 Plant Additions).

A9. Highlights of the FY2021 investments include the replacement of a vaporizer at the Company's propane-air plant that is nearing the end of its useful life, as well as the replacement of a main line valve at the Beebe Road Gate Station to replace a 55+-year-old 10" valve, which will also support future ILI work. Also included in the 2021 plant additions are distribution mains, services, and meters to support customer growth within our current footprint along with costs associated with the Milton reinforcement project that was postponed in 2020 due to Covid-19-related quarantine delays and limitations with contractors.

All January-September 2020 plant additions are indexed on Exhibit VGS-JSH-1, and the investments are included in rate base consistent with the timing of the investments as detailed on Schedule 12c to Exhibit VGS-MM-1. All 2021 plant additions are expected to be completed and placed into service as of October 1, 2021, coinciding with the start of the Rate Year.

Q10. The last COS included a significant capital investment associated with the replacement of the Company's CIS. Please provide an update on that project and describe how the CIS is reflected in this rate filing.

A10. As we explained in the last COS, our current customer information system was implemented over 20 years ago. This outdated system presents us with a variety of challenges including lack of system support and incompatibility with mobile and online functionality that our customers now expect. To address these substantial obstacles, the Company is in the midst of the most significant IT investment in years: a complete replacement of the CIS. I am the executive sponsor of the CIS project and the project is scheduled to go-live in April 2021, with some capital costs for post-implementation matters through September 2021. This is almost a year delay from the timeline initially contemplated in our last case, though we subsequently filed a COS that pushed the date back prior to the Commission's approval of a 0% rate change in 2020. Although the schedule has partly been impacted by vendor delays and there are some increased costs that are reflected in this case, the overall project is tracking within the original budget, including contingency, and according to our revised schedule.

Q11. Looking ahead to the Rate Year (FY2022), please provide a brief description of some of the key plant investments listed on Exhibit VGS-JSH-2 (FY2022 Plant Additions).

A11. All of the capital investments discussed below are planned to be in-service during the Rate Year and represent investments necessary to operate and maintain a safe and reliable natural gas transmission and distribution network and meet the expectations of our customers. As noted above, for all capital projects in excess of $100,000, a detailed Spec Sheet has been provided.

(See Exhibit VGS-JSH-3.1 to 3.12.) The corresponding Spec Sheet is noted on Exhibit VGS-JSH-2. Highlights of the 2022 capital plan are described below.

Mains and Services Replacement: This COS reflects a continuation of VGS's proactive main and service replacement program based on a risk assessment identifying areas to be replaced. (Spec Sheet provided as Exhibit VGS-JSH-3.3.)

Municipal Replacement: This COS separately identifies mains and services that will be replaced in connection with municipal infrastructure projects, such as road widening. VGS has historically managed this work within the main and service replacement budget. However, due to an increase in municipal project replacements, we now track this work as a standalone program to ensure we continue to address targeted risks on the distribution system as described above. (Spec Sheet provided as Exhibit VGS-JSH-3.5.)

In-Footprint Mains and Services: These represent investments in distribution mains and services (including services associated with previously installed Addison County distribution networks) in response to customer demand for natural gas service from new customers. The methodology for determining the costs of these investments is essentially unchanged from prior proceedings, but we have strengthened our approach to mitigating the potential for cross-bores during construction, and the associated cost increase with this improved approach has been added. Please note that the COS does not include any investment for expansion into any new

communities and as such reflects an overall slowing of customer growth. (Spec Sheet provided as Exhibit VGS-JSH-3.4.)

Meters and Meter Installation: The COS includes investments in new meters and meter installation (the capitalized labor associated with meter installation) associated with both serving new customers and the Company's Commission-approved meter testing and replacement initiatives (Spec Sheets provided as Exhibit VGS-JSH-3.7 and JSH-3.8). It is worth noting that we continue our proactive program to move some remaining indoor regulators and meters outside where it is feasible to do so.

Main Line Valve replacement: As previously mentioned in my testimony, the 10" transmission line was installed in the mid-1960s and included the installation of nine Main Line Valves ("MLV"). The MLVs are used to isolate sections of the transmission line during emergency situations and are nearing the end of their useful life. Three MLVs have already been replaced, including the border station MLV when that station underwent a partial rebuild, Quail Hollow MLV when we replaced the Lamoille River crossing, and the Carter Hill MLV when the valve developed a small leak. The Swanton Gate MLV is no longer needed and is scheduled for removal in 2021 in conjunction with the Beebe Road MLV replacement in 2021. This rate case includes two MLV replacements in FY2022, including the Lake Street MLV, which needs to be replaced to facilitate future ILIs, and the replacement of the Georgia Plain Road MLV. (Spec Sheets provided as Exhibit VGS-JSH-3.1 and JSH-3.2.)

Distribution Reinforcement: The COS incudes distribution reinforcement extensions to connect smaller distribution networks fed by a single small gate station to larger distribution systems with multiple gate station feeds. These extensions will provide additional redundancy, reliability, and flexibility for system operations. (Spec Sheet provided as Exhibit VGS-JSH-3.6.)

IT Hardware and Software: VGS must continually upgrade its various computer systems, both hardware and software. The COS reflects approximately $101,000 associated with replacing tablets and laptop computers to ensure our teams have the tools to perform their jobs efficiently and in a remote environment. (Spec Sheet provided as Exhibit VGS-JSH-3.11.) Also included is $190,000 associated with service to security cameras and other remote monitoring equipment at some of our gate stations. (Spec Sheet provided as Exhibit VGS-JSH-3.10.)

Q12. In addition to the expenses and capital additions described above, this COS is also the starting point for the Company's proposed ARP. How do the capital expenditures relate to ARP?

A12. As the Commission is aware, under the proposed ARP, VGS expects this COS to serve as the basis for rates in the first year of our ARP, with fixed non-gas rate changes to occur in the following two rate years, 2023 and 2024. Since capital expenditures can have a significant impact on the need for rate changes, VGS is forecasting its capital investments over the initial term of the ARP, and will annually report on any variance, which will be addressed in accordance with the terms of the ARP.

In the ARP filing in Case No. 19-3529-PET, VGS indicated that it would include the information called for on Attachment 1 to the ARP, specifically VGS's net capital forecasts for the Rate Year and the next two years proposed to be included in the ARP, in this COS filing. With this COS filing, VGS is therefore providing the Commission with those projections. While the ARP itself is still under review, we expect the capital spending projection to inform the pending ARP proceeding as it progresses. Attachment 1 to the ARP is provided as **Exhibit VGS-JSH-4**.

I note that Commission Rule 2.402 requires that rate filings be accompanied by a forecast of projected construction expenditures by category for each of the following two years. Exhibit VGS-JSH-4 also satisfies the requirement of Commission Rule 2.402.

Q13. Does this conclude your testimony?

A13. Yes.