COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
THIRD SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D.T.E. 06-31

Date: September 26, 2006

Responsible: Danny G. Cote, General Manager

AG 3-7: Please provide all e-mails and other correspondence from 1999 to the present to or from Dan Cote, Keith Dalton, Harris Marple, Shawn Patterson and Mike O'Donnel (or their respective predecessors) regarding corrosion on bare steel mains and services in Bay State's Lawrence, Springfield and Brockton Service territories.

RESPONSE: This question has been modified per agreement with the Attorney General.

Attached as Attachment AG 03-07 are e-correspondence and other documentation resulting from a search of Dan Cote's e-mail box, seeking all e-mails to/from Harris Marple and/or Mike O'Donnell with the keys term "corrosion" and/or "bare steel."

Emails and Other Correspondence from or to Dan Cote, Marple, Dalton, Patterson, O'Donnell pertaining to

Main Replacement – AG-3-4

Main Leak Repairs – AG-3-5

Budget - AG-3-6

Corrosion & BS AG-3-7

Searched Danny's "Hard" files – nothing found

Searched Danny's H; Drive (Danny had moved some documents from his email to H Drive before deletion of old emails)

The relative documents are attached.

Bay State & Northern Utilities – January 2004 Status Report

- **January 2004 O&M Budget Status**

Preliminary results of BSG\NU January O&M spending indicate that we were over budget by approximately $175,000, primarily due to increased leak response and repair. The two key drivers to this are the number of broken Cast Iron mains we experienced in our Springfield, Lawrence, and Maine systems, and the number of corrosion leaks we continue to see in the Brockton system. While the leaks on CI are created by ground movement and are almost exclusively a first quarter phenomenon,

- **BSG\NU Energy Products and Services**

Scott Macdonald, Marty Poulin, and I have formulated an EP&S staffing proposal for Sam's review that will rectify the EBIT shortfalls which occurred in our EP&S business during 2003. The plan will provide an additional $900,000 in 2004 EBIT by staffing the service function to the volumes of work identified and budgeted for (but not staffed to) in the 2004 budget plan. These changes will also help reduce the currently high overtime levels in service and will provide a better distribution of resources in the field to meet the emergency response and service quality expectations of our regulators. If approved, our plan is to have these added resources in place in time to meet the anticipated demand for seasonal HVAC inspections, which typically begins in the April\May timeframe.

- **Massachusetts Bare Steel Replacement Discussion**

Steve Bryant and I met with Bob Smallcomb, the Director of the Mass DTE Pipeline Safety Program, to discuss the current bare steel corrosion leakage rates vs. the historical levels in the Bay State system. In Brockton particularly, which is our largest bare steel system with approximately 399 miles, we have experienced more than a 50% increase in corrosion leakage in 2003. Bob was in full agreement that this aging bare steel situation was one that would require a long-term focused effort to address. In addition, we began to explore a strategy for a cost recovery mechanism that would address recovery of our long-term system replacement costs. While Bob generally supported our interest in a step adjustment program that allowed us to recover bare steel replacement costs annually, he recommended that we meet with the commission chairman to better understand possible regulatory treatment of such costs. Steve and I plan to meet with the chairman over the next few weeks to continue our discussion.

- **Springfield Work Continuity Plan and Negotiations Status**

We are continuing to refine our Springfield, Springfield Clerical, and Portsmouth NH work continuity plans. All key stakeholders have provided several rounds of input to the plan as it has evolved, and we expect to have the current draft in everyone's hands by the first of February for final review. In addition, the Field Operations and Labor groups have finalized the operating issues proposals and we expect to finalize our position on the benefits issues by January 22nd. Finally, Tom Robertson, Ed Santry, and I all believe that our Springfield Operating Union may be interested in an early, expedited negotiation so Tom will be seeking

approval from the HR group for us to proceed. If he is successful we will propose to the union that we undertake early negotiations in February with a target wrap up date of February 29th.

Bay State & Northern Utilities – January 2004 Operations Report

- **January 2004 O&M Budget Status**

Preliminary results of BSG\NU January O&M spending indicate that we were over budget by approximately $176,000, primarily due to increased leak response and repair. The two key drivers of January leakage are the number of broken Cast Iron mains we experienced in our Springfield, Lawrence, and Maine systems, and the number of corrosion leaks we continue to see in the Brockton system. While the leaks on CI are created by ground movement and are almost exclusively a first quarter phenomenon, the ongoing and accelerating rate of corrosion leakage is non-seasonal and may be more problematic in terms of 2004. Further, we do not expect a leveling of corrosion leak rates for the near or medium term. While we are monitoring this trend closely and have increased the 2004 BSG capital corrosion replacement budget by nearly $4,000,000, addressing this situation will require a substantially increased capital commitment for the long term, coupled with a regulatory rate recovery strategy.

- **Lewiston Explosion**

We are continuing to work with the Maine Public Utilities Commission to investigate an explosion on Main St. Lewiston that occurred on January 12th. The State Fire Marshall's initial determination was that a broken 6" Cast Iron main, disturbed by frost induced ground movement, was the "probable cause" of the incident.

That said, based on the extensive leak testing that we did throughout the area immediately after the event and the nearly 2 hour delay between the explosion and subsequent fire, we are also looking for other possible causes. The broken section of Cast Iron has been removed and is now at a testing lab for analysis where we hope that the testing will establish the direction and speed of crack propagation and give us a more solid technical basis to challenge the conclusions in the initial report.

Whatever the outcome of our investigation, given the level of attention this incident has received with the Commission and in the Maine press, it is clear that we will be under considerable pressure to develop a structured Cast Iron replacement program in Maine.

- **Springfield Work Continuity Plan and Negotiations Status**

We are finalizing our Springfield, Springfield Clerical, and Portsmouth NH work continuity plans and are essentially complete. The next step in this process would be to notify all the exempt who will be involved in providing key coverage that they have been identified as being part the plan and of their need to be available.

The Springfield operating union has agreed to an early negotiations schedule so we plan to begin formal negotiations the week of February 8th. Our hope is

to complete the negotiations with the operating group and hold the ratification vote by the end of the first week in March.
Based on this accelerated negotiating schedule we will defer the employee notification until the end of February pending progress during the negotiations.

- **Performance Management And Year End Reviews**

I have completed the 4th quarter and 2003 year end performance review with all of my direct reports and they are now meeting with all of their non-union employees to wrap up their 4th quarter reviews. I also used this opportunity to discuss broad performance expectations for 2004 and focus attention on our 2004 key objectives. Further, I sent out the latest draft of my PMW to the operations leadership group so we can begin to drill down through the field operations organization and embed our common goals in the PMW's of the organization.

Combined Regulatory & Operations Staff Meeting Notes

November 22, 2004

To: Bill St.Cyr, Charles Moran, Colin Nesbit, Dana Argo, Danny Cote, Don Merriam, Donald Dinunno, Jay Moore, John DaSilva, Keith Dalton, Marie Walker, Martin Poulin, Mike Laghetto, Pamela Bellino, Pat Teague, Paul Rogosienski, Gerry Gillmeister, Stephen Bryant, Virginia Anthony, Chico DaFonte, Doug Casey, Joe Ferro, Marge Izzo, Derek Buchler, Jim Keshian, Trish French, Tom Birmingham, Steve DeCarolis, Susan Kullberg

cc: Sam Miller, Sherry Gavito

From: Danny Cote

Notes by: Darcy St. Martin

A combined operations and regulatory staff meeting was held to present each group's major topics.

1. Third Quarter Financial Update (handouts) – Steve Bryant & Dan Cote
   - Third Quarter is critical. Last opportunity to complete compliance. Important to operate business responsibly in preparation for Massachusetts Rate Case.
   - YTD NiSource Earnings per Share – Close to plan
     - Favorable: Weather cooperated; Interest rates are down and hopefully will stay down; Lower property taxes
     - Unfavorable: Customer usage is down; cool summer, lower gas demand
   - BSG/NU YTD Financial Results – Better than plan
     - Favorable: 3.7% colder than normal; Lower O&M expenses; favorable property tax adjustments – Paul Franciose challenges assessment strategies to keep taxes down.
     - Unfavorable: Unbilled accounting adjustment
   - BSG performed better than planned – Great job with O&M expenses.
   - Guardedly optimistic regarding incentive compensation. Warm weather in the outlook. Surprises (that are not helpful) typically occur during last quarter.
2. Gas Supply/Gas Costs (handouts)
   - Wholesale update- Chico DaFonte: Storage is critical element – market driven. Prices increased every year since 2001. Currently, prices trending downward. Prices are higher in January and February. Limit customer exposure to higher prices by drawing from lower storage prices. Hurricane Ivan drove price up $3.00 in September. Wholesale November price is 40% more than last year. Normal temperatures are predicted for New England in 04-05.
   - Rates/CGA Overview – Joe Ferro: Cost of gas rates higher compared with last year – BSG/23% increase; NU-NH/2% increase; NU-ME/8% increase.
     - CGA calculations approved by PUC's. Mass. did not approve October filing. DTE allowed to gradually increase costs.
     - MA & ME have significant under-collection issues – which will drive prices up in the future

- Gas competitive with oil prices - $1.96/gallon. $2.14 converted gas price.
- Communications efforts/customer outreach – Chuck Moran/Don DiNunno: Increased prices have impacted customers. Media coverage prevalent re: gas prices. Focus on educating customers that assistance is available. Public officials also trying to help constituents.
  - DSM co-funding fuel assistance guidelines brochures. Ads are distributed to all media, town officials, etc. Posters available to all people who need assistance. Posters to be placed in walk-in areas.
- Customer Issues
  - Update from Call Center – Pat Teague
    - 73,000 calls; 86% service. 4,448 calls in October.
    - Virtual Hold – 2 minute wait lowered to 1.45. Customers asked if prefer call back or stay on hold.
    - Attendance policy for the call center was presented to union. Meetings to alert employees as to seriousness of new policy. No call-outs since policy instituted.
  - Revenue Recovery – Steve DeCarolis
    - Additional employees added to focus on protected residential accounts. OCM's involved.
    - Fuel assistance program payments sent to Springfield.
    - BSG incurs higher write-off than rest of NI. Higher June & July figures attributed to lag time from shut-offs in April. CGA – 60% recovered write-offs.
    - In October, BSG experienced .97% percent write off, compared to .79% last year.
  - DTE/PUC Complaint Case Update – Virginia Anthony
    - Complaints down from last year in all three states.
    - Tightening up collection practices spawned customer complaints for 2004.

3. Sales/EP&S Update – Marty Poulin
   - Sales
     - New sales force hired in August – Need 12 months for accurate assessment of their impact
     - New load bookings have been trending up since September
     - YTD bookings $306,125 higher than last year. Commercial bookings $299,022 higher than last year. New projects may possibly generate additional $250,000-$300,000 booked net revenue.
     - $3 million projected net revenue.
   - Northeast Retail Services
     - YTD EBIT - $5,041.3 ($27.6 higher than planned) - $599,100 ahead of 2003 (13.4%).
     - YTD Revenues - $382,400 ahead of 2003 (2.5%).
     - Gross Profit - $173,300 ahead of 2003 (1.5%)
     - 2% of Annual inspections lead to installs. 4,152 more inspections completed through September than last year. During April 1 – October 31 completed 92 more installs than last year.
     - Over 6,100 new Guardian Care contracts. Exceeded goal!
     - GC revenues $562,500 (13.5%) higher than last year.
     - GC profit $510,900 (18%) higher than last year.

4. Regulatory Update – Joe Ferro/Steve Bryant
   - Interruptible Sales Curtailment-Joe Ferro
     - Priority based on reliability and costs to firm customers.
     - August and September, 2004 letters sent to IC notifying of plans to shut-off.

- Turn-off effective December 1. Turn-on April 1.
- No obligation to serve IC.
- Hospitals are required to have dual fuel – should be firm customers. Gas Use charged at Emergency Sales rate.
- When request for Firm Service - need customer commitment to use minimum level of gas.
- Arrangements may be necessary to enter into agreements. May need DTE approval.

- SQI Update – Steve Bryant. Major improvements made over last 4 years. Large penalties paid to DTE 4 years ago. Will be in great shape now and in future. Important for all employees to be aware of measures. Doing great job!
  - Mass met all targets in October.
  - No penalties in NH. Targets met.
  - Most targets met in ME
  - Updated Performance Metrics summary posted on MySource.

5. Operations Update
   - Cast Iron (Maine)
     - Maine has higher rate of breakage that other BSG Locations. Repair 15-25 mains/year for 30 years. Since 1970, house lost every 17 years. MPUC now pays more attention to system.
     - Completing deal with PUC for 10 year / $3.5 year replacement in Maine.
     - 136 miles of cast iron in Maine.
     - Rates in Maine will step-up as the Capital is spent. Step adjustment not approved until base rates in place.
   - Operations Status Report –
     - PT (Meter testing) issue to be addressed by alerting customers in a letter that a warrant will be issued and Sheriff will accompany service tech to change and/or shut off meter. 47 customers with meters over 14 years. Letters sent and will need to follow-up to complete process by end of year.
     - Bill (Brockton OCM) – 65 Class II's; Surveys on schedule; corrosion activities on schedule; Capital Construction – Incremental $4.3 M to replace 100 feet of bare steel
     - Pam (Springfield OCM) – 40+ Class II's, Surveys completed; Corrosion activity is current, Other operating isues – 3 cracked mains – 12", 16" and 8" in different locations.
     - Paul (Maine OCM) – 0 Class II's; Surveys completed; Other Operating Issues – 2 MGP sites – Lewiston pipeline integrity issues. Possibly eliminate line; ISO audit went very well; pipeline contractors sent home.
     - Mike (Lawrence OCM) – Less than 6 Class II's; Surveys completed; corrosion activities are done; PT's will be an issue due to short staffing; illegal apartments discovered—working with cities to clean up problem. DTE questioning problem.
     - John (NH OCM) – 2 Class II's; Leakage Surveys OK; Corrosion Activities up to par; Capital Projects – 5 crews; Other issues – audit for ISO went very well.
     - Don M. (Corrosion & Leakage) – A few Corrosion repairs need to be completed.
     - Dana (Peak Shaving Plants, M&R) – Preparing plants and regulator stations for winter – ready to go.
     - Marie W (Logistics\Support Ops) – Dispatch update: Transition from dispatch to logistics has begun. Logistics Coordinator in place by December. Marty met with group to explain EP&S program. Kathy and Ralph to focus on how to improve procedures. Kathy is working on repeat calls. Need to resolve meter work in Lawrence.
   - RP1162 – U.S. DOT issued proposed rulemaking incorporating reference API Recommended Practice 1162 "Public Awareness Programs for Pipeline Operators"

Standards recommend how pipeline operators should communicate with publics along their systems. BSG/NU already satisfies many recommendations.

- Establishes clear management accountability and support for the program (a regulatory requirement.
- Provides a standard framework for program documentation.
- Provides operating company accountability and flexibility to address specific regulatory requirements, local initiatives or association programs.
- Establishes a NiSource Corporate Advisory Committee to foster efficiency, consistency, best practices and compliance (in accordance with the Center of Excellence concept).
- Coordinating efforts with NGA. No need to duplicate efforts.
- Preliminary rulemaking by January, 2005; final by January, 2006.
- Bellingham, Washington incident inspired legislation for Public Awareness, (i.e., odor, pipe placement, etc.)
- Bill stuffers not sufficient to communicate to all stakeholders.
- POD in Maine to address pipeline integrity.

Next Staff & Budget Meetings
Monday, December 20
9 a.m. - noon
Budget Meeting
1 p.m. - 3 p.m.
Westborough/Brockton Room
Westborough

Weekly Scan

August 18th, 2006

Confidential
For Internal Use Only

Operations East

HOT

- We are working on the Operations portion of the new Virginia data requests AG set 3.
- We and Ohio are completing the RFP's for a replacement to Detech, our current contract locator. This is likely to increase the cost of contract locating going forward.
- We are ramping up our planning processes in Pa. to increase the number of class 2 leak repairs. There are currently over 2200 open leaks and the goal would be to reduce this to 1700 by year end.
- The investigation of the Mt. Pleasant investigation determined that it was caused by a corrosion leak on our system. During a follow-up meeting with the commission staff on this incident, the discussion expanded to include CPA bare steel replacement rates. We have 45 days to respond with a planning timeline to address all bare steel in our Pa system.

In Process

- 2006 Mass Bare Steel & Me. Cast Iron Replacement is underway
- 2006 Construction program underway in all Dist East Ops locations
- Submitted Operations testimony to commission in Va. Rate case, waiting for data requests from staff.
- Work with Terry Murphy on joint Reg\Ops strategy in Pa. and responses to management audit
- Working with Steve Bryant on responses to BSG management audit
- We are initiating a Process in Pa to began surveying all bare steel and CI mains annually.
- We are continuing to work on operations responses in the BSG management audit.

Calendar

8\18 – Give OQ presentation At the AMSC meeting in Pittsburgh
8\18 Executive Safety Committee meeting
8\21 Pa. Bare Steel replacement call
8\22 Pa Budget Meeting
8\23 Suffolk Va. LOA visit & Labor discussion
8\24 Pa Staff Meeting

2006 Ops East Goals

Employee Safety

	Plan	Actual
DAW	90	161
•OSHA	27	28
•Pr V acc.	22	22

Financial

O&M	90.2	*90.5
Capital	134.8	*134.8
EP&S	6.2	*5.8

Customer Service

• Leak res.	95%	97.5%
•Ser. App	95%	97.5%
•Cust. Sat	95%	95.8%
•Compliance	100%	100%
•Dam\1000	TBD	2.54

Regulatory

•Support Ma. Management & outsourcing Docket
•Support Me., Va, and Pa. Rate cases and filings

* = YE Projected

Don Merriam

07/06/2006 10:46 AM

To: Bill St.Cyr/BSG/Enterprise@Nisource, Dana Argo/BSG/Enterprise@Nisource, Danny Cote/BSG/Enterprise@Nisource, Edward Collins/BSG/Enterprise@Nisource, Joan Furtado/BSG/Enterprise@Nisource, John DaSilva/BSG/Enterprise@Nisource, Kenneth Santucci/BSG/Enterprise@Nisource, Mike Laghetto/BSG/Enterprise@Nisource, Pamela Bellino/BSG/Enterprise@Nisource, Paul Rogosienski/BSG/Enterprise@Nisource, Ralph Wadman/BSG/Enterprise@Nisource, Robert Allen/BSG/Enterprise@Nisource
cc:
Subject: Re: Mastic

After talking to Ralph he will increase the reorder quantities of wax tape, T Tape and gray tape as we begin to use them as the substitute for mastic.

Ralph is checking to see if he can send the existing quantities back for a refund. If not, we will use up the existing stock and not reorder.

Don Merriam
Corrosion/Leakage & Facilities Manager
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Fax - 508-836-7070
dmerriam@nisource.com

Don Merriam

Don Merriam

06/29/2006 08:41 AM

To: Ralph Wadman/BSG/Enterprise
cc: Bill St.Cyr/BSG/Enterprise@NiSource, Pamela Bellino/BSG/Enterprise@NiSource, Mike Laghetto/BSG/Enterprise@NiSource, John DaSilva/BSG/Enterprise@NiSource, Paul Rogosienski/BSG/Enterprise@NiSource, Robert Allen/BSG/Enterprise@NiSource, Joan Furtado/BSG/Enterprise@NiSource, Kenneth Santucci/BSG/Enterprise@NiSource, Edward Collins/BSG/Enterprise@NiSource, Danny Cote/BSG/Enterprise@NiSource, Dana Argo/BSG/Enterprise@NiSource
Subject: Mastic

Ralph

It has been decided that we will no longer stock mastic in the warehouse. We will increase the reorder quantities of wax tape, T Tape and gray tape, where applicable, and they will be used as the substitute for the mastic.

Could you tell me how much mastic we have remaining in each warehouse? If the quantities are high, is it possible to send it back for a refund? If the quantities are low we will use up the remaining stock, but not reorder.

Thanks for your help with this!

Don Merriam
Corrosion/Leakage & Facilities Manager
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NiSource Karl Brack
06/14/2006 11:57 PM

To: Don Merriam/BSG/Enterprise@NiSource
cc: Joanne Bronikowski/TCO/Enterprise@NiSource, Danny Cote/BSG/Enterprise@NiSource
Subject: Employee Survey Results: Distribution East/Corrosion BSG

The 2006 NiSource Employee Survey

Results and Follow-Up Guide for Leaders

*With this email, you are receiving **NiSource Employee Survey Reports** for your work group or functional area.*

Here's what your survey reports include:

1. Sample size (number of people completing the survey who said they work in your area)
2. Results for your group (assuming at least 5 responses from the work unit)
3. Results for the larger overall department/function that you are a part of (where applicable)
4. Results for NiSource overall
5. Results for supervisors vs. non-supervisors (assuming at least 5 responses for each category).

Functional leaders (ie, General Managers and VPs) will receive overview reports for their entire organization.

Corrosion BSG-NU (Merriam).: Dist Ops East - Total (Cote).x

Dist Ops - Total (Marple).xl NiSourceTotal200606.xl

Some things to keep in mind when looking at the reports:

- ❑ Pay close attention to the sample size (the number of employees that completed the survey). When sample sizes are low, scores can dramatically change based on the responses of just one or two people. As a result, differences in scores may appear much more significant than they actually are.
- ❑ To maintain confidentiality, data was not shown for any group with a sample size less than 5.
- ❑ For your convenience, a copy of the original survey form will be included with the results.

Next steps:

- ❑ Think about how you want to share and use the results with your work unit or team, including:
  - The timing and process for sharing the results with employees and
  - How to use survey results for continuous improvement.

- ❑ **Key points** you may want to share with your team and employees include:
  - The overall response rate for NiSource was excellent for this type of survey
  - This survey establishes a baseline that we can build upon
  - It reflects one point in time, a "snapshot" of the environment
  - We recognize many factors impact how people feel…some more or less within our control

- Our follow-up will focus on things that support our business initiatives and operating plan
- Our goal is to continue improving over time

❑ Communicate and discuss work group results with employees in your organization. Depending on circumstances, this may happen at a meeting, conference call, via email or in written form. *Note: So that work units throughout NiSource can be on the same track, please wait until at least June 15 to share results with employees You may also want to coordinate timing with other local teams.*

❑ See the attached **Survey Results Discussion Guide** or **Optional Action Planning Guide** for ideas and suggestions regarding how to communicate and act on the survey results.

Survey Results Discussion Suggestions.p Optional Action Planning Guide.p

For more information or assistance:

Thank you again for your support for the survey process. If you have questions or would like additional assistance, please contact Joanne Bronikowski in Organization Development, (304) 357-2853.

Don Merriam
06/08/2006 01:37 PM

To: Colin Nesbit/BSG/Enterprise@NiSource
cc: Clarence Wills/BSG/Enterprise@Nisource, Danny Cote/BSG/Enterprise@NiSource
Subject: Re: 2007 6&6 O&M BUDGET and 5 Year Plan

Colin

I agree. Utilities/Electricity is currently $90K over thru May. The breakdown is as follows;

Westborough - 46.1
Brockton - 21.3
Springfield - 9.3
Lawrence - 11.4
Portsmouth - 2.1
Portland - (1.0)

That projected out over 12 months would be close to 200K over 2006's projected numbers. Not sure how you want to handle that for next years budgeting.

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Colin Nesbit

Northern Utilities Natural Gas
A NiSource Company

Colin Nesbit
06/08/2006 11:19 AM

To: Don Merriam/BSG/Enterprise@NiSource
cc: Clarence Wills/BSG/Enterprise@NiSource
Subject: Re: 2007 6&6 O&M BUDGET and 5 Year Plan

Thanks,

You may wish to start your budget planning for 2007 using this years files.

I will modify ABC files for labor and send out.

The key area I see is Electric/Utilities and how much that should be.

Yours,

Colin
Don Merriam

Don Merriam
06/08/2006 10:35 AM

To: Colin Nesbit/BSG/Enterprise@NiSource
cc: Clarence Wills/BSG/Enterprise@NiSource
Subject: Re: 2007 6&6 O&M BUDGET and 5 Year Plan

Colin

This should account for my Facilities labor for 2007.