

New Hampshire Public Utilities Commission

**Joint Petition of Iberdrola, S.A. &
Energy East Corporation**

Acquisition of New Hampshire Gas Corporation

DG 07-083

**Testimony
Stephen P. Frink**

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11 **Q. Please state your name, occupation and business address.**

12 **A.** My name is Stephen P. Frink and I am employed by the New Hampshire Public Utilities
13 Commission (Commission) as Assistant Director of the Gas & Water Division. My business
14 address is 21 S. Fruit Street, Suite 10, Concord, New Hampshire 03301.

15 **Q. Please summarize your educational and professional experience.**

16 **A.** Please see *Attachment SPF-1*.

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

18 **A.** The purpose of my testimony is to evaluate the proposed acquisition of New Hampshire Gas
19 Corporation (NHGC) by Iberdrola, S.A. (Iberdrola) and provide a recommendation to the
20 Commission as to whether the proposed merger will have an adverse effect on rates, terms,
21 service, or NHGC operations consistent with R.S.A. 369:8, II(b) and is lawful, proper and in
22 the public interest as required by R.S.A. 374:33.

23 **Q. Briefly describe Iberdrola.**

24 **A.** Iberdrola is an international utility and energy company with a market capitalization of \$70
25 billion that serves 24 million customers in Europe and the Americas. Iberdrola has over 100
26 years of experience as an electric utility, is the largest producer of wind energy in the world and

1 third largest independent operator of natural gas storage in North America.

2 **Q. Briefly describe Energy East Corporation (Energy East).**

3 **A.** Energy East is a public utility holding company with operations in New York, Connecticut,
4 Massachusetts, Maine and New Hampshire, serving approximately 2 million electric customers
5 and 1 million natural gas customers.

6 **Q. Briefly describe NHGC.**

7 **A.** A subsidiary of Energy East, NHGC is a public utility providing propane air service to
8 approximately 1,000 customers in Keene, where its operations and service center is located.
9 Berkshire Gas, Energy East's Massachusetts gas utility subsidiary, provides a range of affiliate
10 services to NHGC.

11 **Q. How is Iberdrola's acquisition of NHGC to be accomplished?**

12 **A.** Iberdrola is purchasing 100 percent of the common stock of Energy East for approximately
13 \$4.5 billion to be financed through a single equity placement that has been fully subscribed.
14 Iberdrola is paying \$28.50 per share compared to the Energy East market price of \$22.50 per
15 share at the time of the merger announcement, a 26 percent premium.

16 **Q. Is the purchase premium addressed in the petition?**

17 **A.** Yes. Iberdrola has stated that it will not seek recovery of the premium through rates.

18 **Q. Will there be any synergy savings as a result of the merger?**

19 **A.** None are expected. The acquisition takes place at the holding company level and will not
20 result in a combination of the operations of individual operating companies that would produce
21 synergy savings.

22 **Q. Will there be a business reorganization following the merger?**

23 **A.** Presently, there are no reorganization plans that would impact NHGC. NHGC's operations and

1 service center will remain in Keene and all employees will be retained. In addition, the
2 Berkshire Gas employees that provide service to NHGC will continue to provide those services.

3 **Q. Will there be any adverse effects as a result of the merger?**

4 **A.** There are no anticipated changes in management, operations or capital investment. Although
5 changes are not anticipated at this time, that could change following the merger.

6 Over the past several years, under Energy East, NHGC has made substantial plant
7 improvements, changed over one hundred commercial and industrial meters and aggressively
8 addressed system leaks. As a result, NHGC has seen the percentage of unaccounted for gas
9 decrease from 7.94 percent to 3.53 percent. See *Attachment SPF-2*. The decrease in
10 unaccounted for gas over the past year reduced this year's rates by almost 5 cents per therm.

11 There is no firm commitment by Iberdrola, or Energy East for that matter, that ensures
12 the same level of spending for capital investments, operations and maintenance, and customer
13 service. If spending was reduced, there may be an adverse impact on customers. Any
14 reduction in NHGC staff or capital investment, given the size of the utility, could have a
15 profound effect on any number of areas – such as customer service, system reliability and rates.

16 Failure to maintain the current level of funding could reverse the downward trend in
17 unaccounted for gas and the benefits realized. See *Attachment SPF-3*.

18 **Q. How does Iberdrola expect to provide a public benefit to New Hampshire customers?**

19 **A.** In response to Staff data request 1-1 (attached), Iberdrola states that benefits are realized in
20 three general areas: 1) Iberdrola's expertise in operating electric and natural gas systems and
21 its strong record of focusing on efficiency; 2) improved access to capital due to the size of
22 Iberdrola's balance sheet, its higher bond rating, and its conservative financial philosophy; and
23 3) Iberdrola's expertise in constructing and operating renewables and emerging "green"

1 technologies. See *Attachment SPF-4*.

2 **Q. Will the merger provide a benefit to NHGC customers?**

3 A. No, it does not appear that the merger will have any concrete positive benefits for New
4 Hampshire customers. While customers may not be harmed by the merger, it is difficult to see
5 how NHGC customers will see any direct benefit from Iberdrola's acquisition of Energy East.

6 **Q. Why won't NHGC benefit from Iberdrola's expertise in utility operations?**

7 A. Iberdrola has no propane experience, and even if it did, one would not expect the parent
8 company of utilities serving 27 million customers to devote many resources to overseeing a
9 single propane air system serving 1,000 customers.

10 **Q. Why won't NHGC benefit from Iberdrola's financial strength?**

11 A. NHGC capital investments since its incorporation have been funded by an initial infusion of
12 equity and, since that time, from utility operations. NHGC has been able to make significant
13 improvements to its system financed through utility operations and should be able to continue
14 doing so without issuing debt.

15 **Q. Why won't NHGC benefit from Iberdrola's experience in renewables and green
16 technology?**

17 A. In response to a Staff data request asking how Iberdrola's focus on clean technology and the
18 environment will directly benefit NHGC ratepayers, Iberdrola answered that it has been
19 involved in demand management programs, distributing to customers guides for efficient
20 energy use and enacting demand response initiatives to reduce electricity consumption on peak
21 hours and shifting the load to off peak periods. See *Attachment SPF-5*.

22 The response notes that NHGC has in the past, and will in the future, strive for
23 improvements in energy efficiency and that NHGC currently makes available to its customers a

1 brochure providing tips regarding conserving energy. The response does not explain how
2 Iberdrola's experience implementing electric demand response might benefit NHGC customers,
3 given NHGC's extremely small size and the fact that it is a propane air system.

4 **Q. What is Staff's recommendation regarding approval of the proposed merger?**

5 **A.** Staff does not believe the merger will provide a concrete public benefit. Iberdrola has no
6 propane experience and, given the infinitesimal impact NHGC will have on Iberdrola's overall
7 financial performance, it is unlikely NHGC will be the focus of any new initiatives resulting
8 from the merger.

9 It is Staff's expectation that NHGC staffing and capital expenditures will meet or
10 exceed current levels following the merger. Without a firm commitment by Iberdrola to that
11 effect, Staff is reluctant to support the proposed merger. However, Staff does not oppose the
12 merger, as the merger should not have an adverse effect on rates, terms, service or operations.
13 There are no expected changes in how NHGC currently operates following the merger and
14 Iberdrola will not be seeking recovery of the acquisition premium through rates.

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

16 **A.** Yes.

Stephen P. Frink

Educational & Professional Experience

Mr. Frink graduated from the University of New Hampshire with a Bachelor of Arts degree in Sociology in 1977 and a Masters in Business Administration in 1980. He attended and completed Depreciation Programs sponsored by Depreciation Programs, Inc. at Grand Rapids, Michigan in 1992, 1993, 1994 and is a member in good standing of the Society of Depreciation Professionals since 1994.

In 1981, Mr. Frink worked as a High School Math Teacher in Manchester, New Hampshire.

In 1982, Mr. Frink relocated to Texas and worked as an Auditor for Dallas County. He audited various county departments and performed monthly reconciliations of various fund accounts.

In 1985, Mr. Frink went to work for Schenley Industries, Inc., a wholesale liquor distributor located in Dallas, Texas, where he audited national and international manufacturing plants.

In 1986, Mr. Frink left Schenley to work for the City of Dallas as a Budget/Financial Analyst, where he prepared and monitored budgets, prepared pro forma statements, amortization schedules and performed cash flow analysis. He was promoted to Senior Analyst in 1987.

In 1988, Mr. Frink left the City of Dallas to work for the City of Austin as a Financial Analyst. There he prepared budgets and fiscal impact statements, developed a capital projects tracking and monitoring system, and provided training and technical assistance in the implementation of a new accounting system.

In 1990, Mr. Frink joined the Finance staff of the New Hampshire Public Utilities Commission. Working as a member of the PUC Audit Team, he conducted or participated in audits of the books and records of public utilities. He performed desk audits and determined rates of returns. He prepared schedules and exhibits supporting testimony in dockets involving rate increases and participated in settlement conferences. In 1995, Mr. Frink became a full time Analyst for the Finance Department and in 1996 was promoted to a Senior Analyst position, primarily responsible for analyzing and advising the Commission on issues of depreciation, cost of gas adjustment filings, special contracts, and finance and rate increase petitions. In 1998, Mr. Frink was promoted to Assistant Finance Director. As Assistant Finance Director, he assisted in the direction of all aspects of a department responsible for the audit, analysis and review of public utility financial operations, including financing, rate cases and various utility studies filings related to public utility regulation. In 2001, New Hampshire Public Utilities Commission operations were restructured and Mr. Frink became Assistant Director of the Gas & Water Division and now administers all aspects of regulation of gas utilities.

**NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
First Set of Data Requests**

**NEW HAMPSHIRE GAS CORPORATION
DG 07-083**

Respondent: Karen Zink
Date Filed: October 4, 2007

NHG-0010: Regarding NHGC's action plan to reduce unaccounted for gas, what is the status of that plan (i.e., action items and completion or expected completion date)? Will there be any changes to the plan or NHGC's commitment to implementing the plan following the merger?

Response: In the Company's winter 2007 cost of gas adjustment filing, it was stated that "the Company continues to actively work to improve its level of unaccounted-for volumes. As of the end of the 2006 calendar year, the Company repaired 22 out of 37 leaks and changed-out 16 additional meters, for a total of 111 meters. Recently, the Company installed an RTU at the propane plant which affords computerized control over the outlet pressure, resulting in tighter control of the Btu output. In addition, the Company is pursuing the installation of a turbine meter at the propane plant by the end of 2007".

The Company has completed all of the aforementioned items identified in the action plan except for the installation of the turbine meter at the plant. The turbine meter and associated equipment is expected to be available to install sometime in 2008.

NHGC has been successful in the implementation of its action plan to date to reduce unaccounted for gas as demonstrated by the reduction as follows:

Unaccounted for Gas % for the period ending:
6/30/07 - 3.53%
6/30/06 - 6.44%
6/30/05 - 7.05%
6/30/04 - 7.94%

There will be no changes to the plan or NHGC's commitment to implementing the plan as a result of the merger.

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
First Set of Data Requests

NEW HAMPSHIRE GAS CORPORATION
DG 07-083

Respondent: Karen Zink
Date Filed: October 4, 2007

NHG-0007: Ref. Petition, p. 6, "There will be no change to NHGC's headquarters or local service centers in connection with the Proposed Transaction." Is NHGC fully staffed at this time? Please provide an organization chart that includes each position, responsibilities and employee name. In addition, please provide an organizational chart that includes each position, responsibilities and employee name of affiliate employees (not employed directly by NHGC) who direct, manage or provide any other services to NHGC. Will there be any changes following the merger?

Response: NHGC is fully staffed at this time, with eight full-time employees. Attachment NHG-0007-1 summarizes these employees and applicable titles and functions.

David Grande, General Manager of New Hampshire Gas, is a Berkshire Gas employee providing affiliate support services in the management and operational areas. Other Berkshire Gas employees that provide affiliate support services are as follows:

Robert Alessio and Karen Zink – President and Treasurer, respectively, for New Hampshire Gas. Provide executive management services.

Steve Fellman – meter testing services

Rick Hamel – safety training

Rick Nasman – environmental consulting

Shaun Sprague – accounting support services

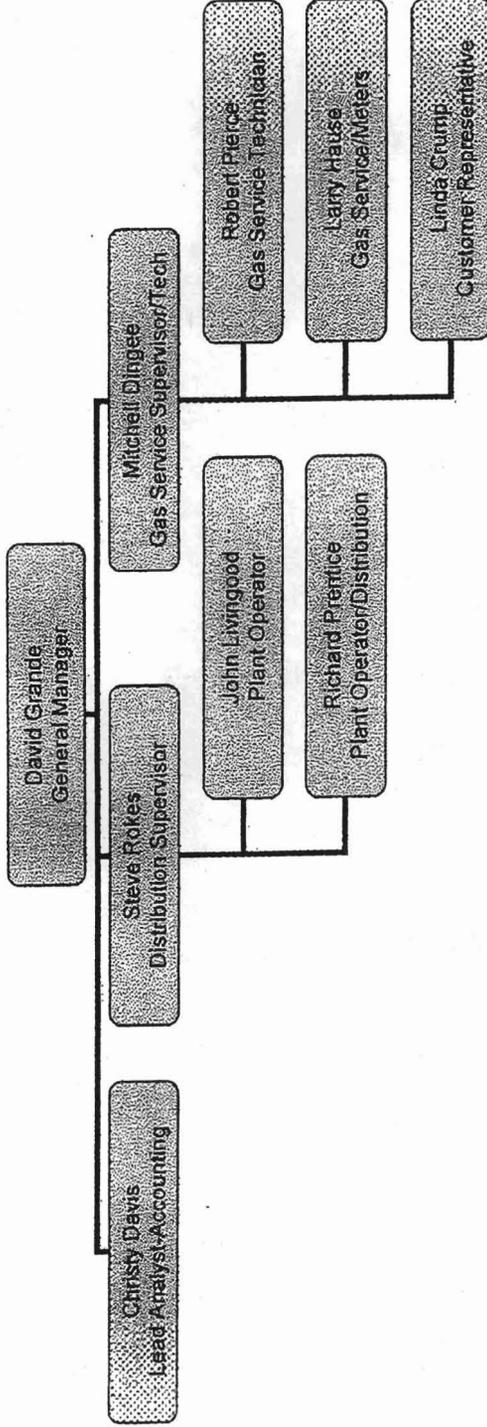
Jennifer Boucher and Tricia Keegan – regulatory support

Cheryl Clark – human resource activities

There are no changes anticipated as a result of the merger regarding the number of employees at NHGC or the affiliate work being performed by The Berkshire Gas Company employees.

New Hampshire Gas Corp. Organization Chart

2007



**NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
First Set of Data Requests**

**NEW HAMPSHIRE GAS CORPORATION
DG 07-083**

Respondent: Karen Zink
Date Filed: October 4, 2007

NHG-0008: How many customer service staff does NHGC currently employ and where are they located? Will there be any changes following the merger?

Response: Linda Crump and Christy Davis provide customer service work as outlined on Attachment NHG-0007-1. Both employees are located in Keene, New Hampshire at the headquarters of NHGC.

There are no changes anticipated as a result of the merger regarding customer service staff.

**NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
First Set of Data Requests**

**NEW HAMPSHIRE GAS CORPORATION
DG 07-083**

Respondent: Karen Zink
Date Filed: October 4, 2007

NHG-0009: How many billing and collection staff does NHGC currently employ and where are they located? Will there be any changes following the merger?

Response: Linda Crump and Christy Davis provide billing and collection work as outlined on Attachment NHG-0007-1. Both employees are located in Keene, New Hampshire at the headquarters of NHGC.

There are no changes anticipated as a result of the merger regarding billing and collection staff.

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
First Set of Data Requests

NEW HAMPSHIRE GAS CORPORATION
DG 07-083

Respondent: Pedro Azagra
Date Filed: October 4, 2007

NHG-0001: The petition generally emphasizes that the merger will not result in any changes to NHGC's rates, terms, service or operations and also that the merger will have positive benefits for NHGC's customers. How can both these claims be true?

Response: Because the Proposed Transaction represents an acquisition by Iberdrola at the Energy East holding company level rather than a combination of the operations of individual operating companies, the transacting parties do not anticipate that the Proposed Transaction will result in any synergistic savings.

The transacting parties believe that the acquisition of Energy East by Iberdrola provides significant benefits to consumers and the economy of New Hampshire with no foreseeable detriments. These benefits are realized in three general areas.

The first noteworthy area is Iberdrola's expertise in operating electric and natural gas systems in a number of diverse locations including Spain, the United Kingdom (U.K.) and Latin America with over 21 million points of supply. Iberdrola's three-year average CAIDI and SAIFI results in both Spain and the UK compare favorably to Energy East's performance and put them in the 1st or 2nd quartiles compared to U.S. utilities. In addition, Iberdrola has a strong record of focusing on efficiency. Iberdrola has addressed efficiency from a number of perspectives, including upgrading its T&D network, encouraging alternative generation options, reducing losses, introducing demand management programs and encouraging conservation. While Iberdrola's expertise is in the area of electric and natural gas systems rather than in propane delivery systems, the breadth of Iberdrola's global experience will allow for the sharing of information with Energy East's utilities following closing of the Proposed Transaction, including with respect to NHGC's propane delivery system.

Second, the size and strength of Iberdrola's balance sheet, its higher bond rating, and its conservative financial philosophy should provide future benefits to customers of NHGC through improved access to capital relative to what would otherwise be the case on a standalone basis. An illustration of this conservative financial philosophy was Iberdrola's sale of \$4.5 billion of equity two days after the announcement to fund the proposed purchase. These direct tangible savings have not been quantified because they require the application of a range of assumptions about future capital spending and market conditions. It is clear, however, that this stronger financial condition benefits customers in the long run.

The third area of benefit is Iberdrola's expertise in constructing and operating renewables and emerging "green" technologies, which are in the best interests of customers.

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
First Set of Data Requests

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DG 07-083

Iberdrola's global engineering and construction company has an impressive record of efficiently building transmission and distribution infrastructure, as well as power plants. They have developed over 36,000 MW over the last 10 years including nuclear, hydro, gas-fired and renewable energies.

As the world becomes more conscious of the importance of building environmentally responsible generation, Iberdrola has taken a leadership position in building renewable generation including wind and hydro power. Its 7,000 MW of installed wind capacity ranks it number one in the world. Its strong R&D efforts in generation include focusing on marine renewables, specifically wave power and tidal stream power. Projects in both these areas are currently underway in the U.K. Iberdrola's business strategy remains consistent with New Hampshire's objective to produce twenty-five percent (25%) of the energy consumed within the State by clean, renewable energy resources by 2025 (*i.e.*, the "25 x 25" energy policy)

**NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
First Set of Data Requests**

**NEW HAMPSHIRE GAS CORPORATION
DG 07-083**

Respondent: Pedro Azagra
Date Filed: October 4, 2007

NHG-0004: Ref. Petition, p.6, "IBERDROLA brings to New Hampshire a significant focus on clean technology and the environment. IBERDROLA strives to achieve its business objectives while meeting customer needs and addressing climate change and New Hampshire will benefit from this corporate philosophy." Please explain how IBERDROLA's focus on clean technology and the environment will directly benefit NHGC ratepayers.

Response: NHGC has in the past and will in the future continue to strive for improvements in efficiency. As noted in the response to NHG-0003, NHGC makes available to its customers a brochure providing tips regarding conserving energy. Iberdrola has also been involved in demand management programs, distributing to customers guides for Efficient Energy Use and enacting demand response initiatives to reduce electricity consumption on peak hours and shifting the load to off peak periods.

See responses to NHG-0001 and NHG-0002.