



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

Docket No. DG 16-XXX

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Petition for Managed Expansion Program Rates

**DIRECT TESTIMONY
OF
WILLIAM J. CLARK
DAVID B. SIMEK**

April 14, 2016

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I. INTRODUCTION

Q. Please state your names, positions and business addresses.

A. My name is William J. Clark and my title is Business Development Professional. My business address is 15 Buttrick Road, Londonderry, NH 03053.

A. My name is David Simek and my title is Lead Utility Analyst. My business address is 15 Buttrick Road, Londonderry, NH 03053.

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

A. We are employed by Liberty Utilities Service Corp. (“Liberty”), which provides services to Liberty Utilities (EnergyNorth Natural Gas) Corp. (“EnergyNorth” or “the Company”).

Q. On whose behalf are you testifying today?

A. We are testifying on behalf of EnergyNorth.

Q. Please state your educational background and professional experience.

A. Mr. Clark

I graduated from St. Anselm College in Goffstown, New Hampshire with a Bachelor of Science degree in Financial Economics in 1991. I began my career in 1992 at Boston Gas Company where I was a member of the Steel Workers of America, Local 12007 and held various positions in gas distribution and customer service, as well as being a union official. In 1998, I was employed by National Grid to start an unregulated energy service subsidiary where I worked as a Sales Account Manager until 2010. When National Grid sold this business in 2010, I was employed by National Grid as a Commercial Gas Sales

1 Representative, working in EnergyNorth's service territory. I joined Liberty in 2012 and
2 progressed into my current position where I am responsible for organic growth
3 opportunities and commercial development for both EnergyNorth and Granite State
4 Electric.

5 A. Mr. Simek

6 I graduated from Ferris State University in 1993 with a Bachelor of Science in Finance. I
7 received a Master's of Science in Finance from Walsh College in 2000 and a Master's of
8 Business Administration in 2001, also from Walsh College. In 2006, I earned a Graduate
9 Certificate in Power Systems Management from Worcester Polytechnic Institute. I joined
10 Liberty in August of 2013 as a Utility Analyst and was promoted to a Regulatory Lead
11 Utility Analyst in December 2014. Prior to my employment at Liberty, I was employed
12 by NSTAR Electric & Gas ("NSTAR") as a Senior Analyst in Energy Supply from 2008
13 to 2012. Prior to my position in Energy Supply at NSTAR, I was a Senior Financial
14 Analyst within the NSTAR Investment Planning group from 2004 to 2008.

15 **Q. Have you previously testified in regulatory proceedings before the New Hampshire**
16 **Public Utilities Commission (the "Commission")?**

17 A. Yes, we have both testified on numerous occasions before the Commission.

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

19 A. Our testimony provides details on a proposed Managed Expansion Program (MEP) rate
20 structure that will allow for the economic expansion of natural gas service within existing
21 and future franchise areas. The new rate structure will be available to all potential

1 customers who require a main extension to initiate service. The distribution rates charged
2 to customers under the MEP will be a premium to the existing EnergyNorth distribution
3 rates for the corresponding customer class.

4 **Q. Please explain the existing EnergyNorth Service and Main Extension Policy.**

5 A. EnergyNorth utilizes a revenue test to evaluate both residential and commercial requests
6 for main and service line extensions. For residential customers, EnergyNorth compares
7 eight years of Estimated Annual Margin¹ to the Estimated Cost of Construction
8 (excluding overheads). For commercial customers, EnergyNorth looks at six years of
9 Estimated Annual Margin and the Estimated Cost of Construction (excluding overheads).
10 If the Estimated Annual Margin over that six or eight year period is more than the
11 Estimated Cost of Construction, the project can proceed. If the Estimated Annual Margin
12 over that six or eight year period is less than the Estimated Cost of Construction,
13 however, the Company's tariff requires the customer to make a Contribution in Aid of
14 Construction (CIAC) payment for that difference. EnergyNorth is also allowed under its
15 tariff to assume that 60% of customers along a proposed extension will take service and
16 that the Estimated Annual Margin from those customers can be included when
17 calculating whether a CIAC is required. The Estimated Cost of Construction for those
18 60% is also added into the overall cost when evaluating a project.

¹ "Estimated Annual Margin" is the estimated revenue from the monthly customer charge and delivery charge which the customer will pay during the first twelve months after completion of the extension.

1 **Q. How does the existing Service and Main Extension Policy perform when analyzing**
2 **current requests for gas service?**

3 A. The policy works well in many circumstances. It allows for a free service line extension
4 of less than 100 feet for residential customers, which has increased new connections, and
5 the policy has worked well in most new construction developments where gas mains are
6 nearby. The policy has also generally not hindered service requests for large industrial
7 customers in the G-43 or G-53 classifications. Customers of that size either have
8 sufficient Estimated Annual Margin to offset the Estimated Cost of Construction
9 associated with a main and/or service line extension, or they have the financial ability to
10 pay a CIAC for the requested extension.

11 **Q. In what circumstances has the existing line extension policy proved challenging when**
12 **evaluating expansion opportunities?**

13 A. A typical scenario is where potential residential customers who are located near an active
14 gas main at a cross street, but do not have a main on their street, seek a main extension to
15 commence service. In most of these instances, even after assuming a 60% saturation rate
16 along the main extension, a CIAC is required from the potential customers. The CIAC is
17 a barrier to conversion for these residential customers because it adds to what can already
18 be significant upfront costs. Customer conversion costs can run between \$500 and \$1500
19 for propane equipment, and up to \$10,000 to convert from oil to natural gas. Adding the
20 lump sum CIAC to these conversion costs can be overly burdensome. Eliminating the
21 upfront lump-sum CIAC payment in exchange for a higher distribution rate, as proposed
22 in this docket, will decrease the initial cost for the customer, resulting in more customer
23 conversions and an expansion of natural gas service. In essence, under the MEP the

1 CIAC will be paid over time through higher customer charges and distribution rates.

2 Liberty often receives requests from residential, commercial and mixed-use developers
3 who are planning new construction projects. In many instances these projects require a
4 main extension to bring gas to the location of the proposed development. While running
5 the gas mains and services through a new development itself is usually revenue justified
6 under the existing Service and Main Extension Policy, the initial main extension to bring
7 the gas to the project often is not. Thus, the current policy requires a CIAC payment
8 from the developer. In many instances the developer will not make the CIAC payment,
9 but move forward with propane because most propane dealers will set the propane tanks
10 and make connections with no upfront cost in exchange for a long-term fuel contract.

11 The developer will not be paying the higher fuel bills, but will save the upfront payment.

12 The proposed MEP rate structure will allow natural gas mains and services to be installed
13 to and through the development at no cost to the developer and at a savings for the
14 customers versus taking propane service, even with a higher distribution rate.

15 Additionally, small business owners may require longer service lines and/or small main
16 extensions to receive service because of parking lot sizes or meter location requirements.

17 Small business owners may also require significant paving/restoration costs. The
18 proposed rates will result in lower initial costs and should result in more conversion
19 opportunities.

1 **Q. Are there additional advantages to EnergyNorth that would result from Managed**
2 **Expansion Program rates ?**

3 A. Yes, as the name implies the MEP will allow EnergyNorth to manage expansion
4 opportunities in a more efficient and designed manner. The Company will be able to
5 target areas in our franchise cities and towns that have high potential for demand and
6 strategically plan and market to potential customers. EnergyNorth has a strong and
7 dedicated sales team that will proactively manage expansion opportunities over multiple
8 years.

9 **Q. Does EnergyNorth have experience marketing, selling and managing large expansion**
10 **projects?**

11 A. Yes. The Company completed Phase 1 of an expansion project in the Town of Bedford
12 in 2015. That project was justified under the existing rate structure, but was greatly aided
13 by the assumption of a 60% saturation rate, a change to the service and main extension
14 policy that was approved in Order No. 25,574 in Docket No. DG 13-198. Through
15 EnergyNorth's city/state construction process, the Company was notified that the timing
16 of highway work along Route 101 in Bedford had been moved up. EnergyNorth began
17 estimating construction costs and contacting potential anchor customers along the route.
18 The Company's commercial sales team signed up a new development, Anagnost
19 Properties, which had previously signed with a propane dealer. The Bedford Village Inn
20 and the Copper Door Restaurant also signed Service Line Agreements (SLAs). With
21 these anchor customers in place, along with a few other accounts, and assuming 60% of
22 the remaining load, EnergyNorth began installing the gas main. Approximately four
23 miles of pipe was installed during the Phase 1 development. The sales team continued to

1 market to all customers along the planned route, walked the neighborhood, left door
2 hangers and held community meetings. The results were extremely successful. Out of
3 230 potential customers along the main that was installed during Phase 1, EnergyNorth
4 signed up 191 customers in the first year, resulting in a Year 1 saturation rate of 83%.

5 **Q. How does EnergyNorth plan to analyze potential managed expansion areas?**

6 A. EnergyNorth recently executed a contract with ICF International to evaluate all existing
7 EnergyNorth franchise areas, including the Keene Division, along with the communities
8 of Hanover, Lebanon, Windham, and Pelham for which we are currently seeking
9 franchise approval. See Attachment WJC/DBS-1 for a copy of that contract. ICF will
10 utilize data from EnergyNorth's customer billing software, the ArcFM gas mapping
11 software, and third-party data to construct a Strategic Intelligence Management System
12 (SIMS) platform for use by the sales and marketing group. This system will develop heat
13 maps of potential expansion areas based on inputted user query parameters. For example,
14 a user may query "all homes utilizing propane as a heat source in the Town of Derry that
15 are within 2,000 feet of a gas main and over 1,800 square feet in size." The SIMS
16 dashboard will produce a heat map of the results, as well as a list of the addresses and
17 owner's contact information. This will allow EnergyNorth to develop construction cost
18 estimates, predict with more certainty expected saturation rates, and explore other
19 ranking criteria for projects before commencing target-marketing efforts.

20 **Q. Are there additional options in the ICF contract that will enhance the sales process?**

21 A. Yes. Included in the ICF contract is the creation of a Gas Availability tool to be placed
22 on the Liberty Utilities website. This will allow potential customers to inquire if natural

1 gas service is currently available to their home or business. If natural gas service is
2 available, the customer will be given the option of contacting the sales department
3 directly or requesting they be contacted at a later date. The customer will also be able see
4 all the energy efficiency rebates available to them and estimate their potential savings
5 over competing fuels. If natural gas service is not currently available in front of the
6 searched address, the data from the query will be captured and downloaded every month.
7 This will allow the sales team to develop heat maps based on the number of inquiries
8 from those areas. This tool will be another resource available to evaluate expansion
9 opportunities. For more details on the Gas Availability Tool, please refer to Attachment
10 WJC/DBS-1.

11 **Q. How will EnergyNorth evaluate the potential expansion areas to prioritize**
12 **construction?**

13 A. EnergyNorth has developed a managed expansion ranking criteria to assist in evaluating
14 projects and associated timelines. Please see Attachment WJC/DBS-2 for the ranking
15 criteria. Included in the weighted rankings are metrics such as the Estimated Annual
16 Margin and the calculated internal rate of return (IRR). These metrics will show the
17 potential profitability and return for the project. Also included are saturation timelines,
18 future expansion opportunities created by the initial expansion, system reliability
19 enhancements such as looping of a system, and timing of city/state construction projects.
20 All large expansions will be evaluated and ranked accordingly. Projects that are not
21 chosen to commence in the upcoming construction season will be reevaluated with
22 potential new projects for subsequent construction seasons.

1 **Q. What are the Managed Expansion Program rates that EnergyNorth is seeking?**

2 A. EnergyNorth is proposing distribution rates under the MEP that are priced 35% higher
3 than the Customer Charges and Distribution Charges in EnergyNorth's corresponding
4 rate classes (except the R-4 Residential Heating Low-Income rate). The Customer
5 Charges and Distribution Charges are what comprise the Estimated Annual Margin for
6 potential new customers when calculating whether a CIAC is required. The Local
7 Distribution Adjustment Charge and Cost Of Gas rates for MEP customers will be the
8 same as for existing customers. Once new rates are determined in subsequent rate cases,
9 Managed Expansion Rates will be calculated by increasing the approved distribution
10 rates by 35%. Attachment WJC/DBS-3 contains EnergyNorth's proposed tariff pages for
11 MEP rates.

12 **Q. What is the overall bill impact when increasing distribution rates by 35%?**

13 A. The overall bill impact of the MEP rates, when including the Local Distribution
14 Adjustment Clause (LDAC) and the Cost of Gas (COG) rates, is an approximate 18%
15 increase from existing bill amounts. An average residential heating customer utilizing
16 approximately 850 therms annually has an annual bill of approximately \$1079. Under
17 the proposed MEP rates that same customer would have an annual bill of approximately
18 \$1,271, but would have a very low up-front CIAC (or none at all). For a working
19 spreadsheet of this analysis please refer to Attachment WJC/DBS-4.

20 **Q. How did EnergyNorth determine the 35% increase to distribution rates?**

21 A. EnergyNorth evaluated several expansion projects that resulted in CIAC payments under
22 the existing rate structure. These projects were reevaluated to calculate what the

1 Estimated Annual Margin would need to be in order to eliminate the CIAC payment.
2 Although gas service will not be available to all residents or businesses of a community
3 due to factors such as distance from main, size of customer load, ledge and/or restoration
4 fees, EnergyNorth's goal was to design a new rate structure that would allow for multiple
5 expansion opportunities over many years by eliminating or reducing CIAC payments
6 while remaining economically competitive as compared with other fuel options.
7 EnergyNorth believes the 35% increase to standard distribution rates achieves these
8 objectives.

9 **Q. How long will the new rates be in effect?**

10 A. The new rates will be in effect for 10 years from the time the first customer in a Managed
11 Expansion Program project takes service. The date that the first meter is activated will be
12 the Commencement Date of that project. All subsequent customers along the main
13 installation will pay their corresponding MEP rate for the balance of the 10 years, at
14 which time all customers will revert back to the appropriate standard rate for their
15 customer class. EnergyNorth believes 10 years is the appropriate time frame due to
16 expected saturation rates. As stated previously, EnergyNorth may utilize six years of
17 Annual Estimated Margin for commercial customers and eight years of Annual Estimated
18 Margin for residential customers. However, due to customer conversion timelines, it
19 could be expected to take a few years to achieve desirable saturation rates.

20 **Q. If all customers in MEP areas will be charged MEP rates for up to 10 years, how**
21 **will "over recoveries" of costs be treated?**

22 A. All customers will share any revenue that is recovered in excess of the revenue

1 requirement associated with the main extension to serve customers located in MEP areas
2 following completion of the next rate case. This situation is no different than what exists
3 under EnergyNorth's current Service and Main extension policy. If the revenue that
4 EnergyNorth receives as a result of a Service and Main extension exceeds the revenue
5 requirement for the extension, all customers benefit once rates are determined in the next
6 general rate case.

7 **Q. How will you determine whether the Managed Expansion Rates will be applicable?**

8 A. First, the Company will evaluate any individual main expansion request for service or
9 any service request located in potential managed expansion areas utilizing the existing
10 applicable rates and line extension policy. If the resulting calculations determine that a
11 CIAC payment is warranted, the project will be reevaluated utilizing the MEP rates. For
12 an individual customer served from an expansion, if the MEP rates result in no CIAC
13 requirement, that customer will be given the option of paying the CIAC and be assigned
14 the appropriate rate under the existing rate structure, or forgoing the CIAC and being
15 assigned the MEP rate for 10 years. If there are multiple customers seeking service and
16 the MEP rates eliminate the need for a CIAC, all customers will be assigned the MEP
17 rate. Any future customers that connect to a main that was deemed a managed expansion
18 area will be assigned the MEP rate for the remainder of the initial 10-year period. Any
19 Company-initiated expansion projects that are deemed to require MEP rates will be
20 analyzed with the ranking criteria mentioned previously.

1 **Q. Will customers have the ability to make a CIAC payment and receive service under**
2 **the existing rate structure?**

3 A. Yes. If a project is evaluated under existing rates and requires a CIAC, the customer or
4 group of customers will be able to pay the CIAC and receive the existing applicable rates
5 in lieu of the Expansion Area Rates. That expansion will then be deemed an “existing
6 main” under the Service and Main Extension Policy and any customer connecting to that
7 main in the future will receive the standard applicable rate as well as being responsible
8 for any resulting CIAC that may occur.

9 **Q. Could customers still be required to make a CIAC under the MEP rates?**

10 A. Yes, they could. If a CIAC would still be required even under the MEP rates and
11 customers still desired service, EnergyNorth would provide service subject to receipt of
12 the CIAC, which would be significantly lower than the CIAC required under standard
13 rates. For an example of a significantly reduced CIAC under MEP rates please refer to
14 the potential North Manchester Expansion Project in Attachment WJC/DBS-5

15 **Q. How do MEP rates compare to competing fuels such as fuel oil and propane?**

16 A. They compare very favorably to current fuel oil and propane prices, even though those
17 prices are at historic lows. Please see Attachment WJC/DBS-4, which shows
18 comparisons between existing EnergyNorth rates, MEP rates, propane, and oil prices
19 across all rate categories. As you can see, MEP rates for residential heating customers
20 result in energy costs that are comparable to these historically low oil prices and offer a
21 significant savings when compared to existing propane prices. The same is true for small
22 commercial customers with high winter demand in the G-41 rate classification. When

1 comparing MEP rates across the larger customer, high winter usage rate classifications to
2 current oil prices, the savings is appreciable. Compared to existing propane prices the
3 savings are still significant. The savings across all flat load customers from G-51 through
4 G-54 are significant as compared to both oil and propane at current prices. If the inputs
5 on Attachment WJC/DBS-4 are changed to the previous three year average for fuel oil
6 and propane, the savings are compelling for all rate classifications.

7 **Q. How do the Managed Expansion Program rates compare to existing rates at other gas**
8 **utilities in northern New England?**

9 A. When comparing EnergyNorth's proposed MEP rates to existing rates in northern New
10 England, they are somewhere in the middle of the pack for residential customers. Please
11 refer to Attachment WJC/DBS-6 for a comparison of residential Customer Charges and
12 Distribution Charges for residential customers of all gas utilities in New Hampshire,
13 Maine and Vermont. When comparing the monthly fixed Customer Charge for
14 commercial accounts under EnergyNorth's proposed MEP rates to existing rates for other
15 utilities, it produces favorable results.

16 **Q. Has EnergyNorth evaluated potential projects that would be good candidates for**
17 **MEP Rates?**

18 A. Yes, the Company has evaluated projects which would be ideal candidates for expansion
19 of natural gas service utilizing the proposed MEP rate structure. Please refer to
20 Attachment WJC/DBS-5 for results of this analysis. EnergyNorth evaluated several
21 projects across differing demographics to determine an "ideal" MEP rate application.
22 The demographics included a densely populated urban setting that has higher restoration

1 fees due to paving and sidewalk conditions but with a higher potential customer count per
2 foot of new gas main. Another example included a more suburban setting with homes
3 spaced further apart but with more gas main and services installed “off-pavement” along
4 with a mixed use expansion to a residential area with the addition of some commercial
5 accounts. The final example was a more rural setting with homes spread further apart but
6 affording the majority of new gas main and services to be installed “off-pavement.” The
7 expansion area rates produced favorable results in all three examples. With the addition
8 of the ICF tools, EnergyNorth will be more proactive in planning expansion projects over
9 many years.

10 **Q. When does EnergyNorth propose to have the new MEP rates in effect?**

11 A. EnergyNorth requests approval of the MEP rates before the winter of 2016. ICF
12 anticipates that the SIMS dashboard and the Gas Availability Tool will be operational by
13 August 1, 2016. Approval of rates before the winter of 2016 would allow the sales team
14 time to evaluate projects, perform construction timelines, and begin marketing efforts for
15 the 2017 construction season.

16 **Q. Have Expansion Area Rates been approved in other jurisdictions?**

17 A. Yes, expansion rates have been approved in many instances around the country. The
18 most recent and local example of expansion rates is in Connecticut. Connecticut passed a
19 Comprehensive Energy Strategy (CES) which included proposals for natural gas
20 expansion. The CES required the state’s three gas utilities to develop a rate structure for
21 economic expansion of natural gas to unserved and underserved areas in the state. The
22 final proposal from the utilities included an expansion area rate which was 30% above

1 existing rates. The Connecticut Public Utilities Regulatory Authority (PURA) approved
2 this rate structure in Docket No. 13-06-02.

3 Another recent and local example of Expansion Area rates occurred in Maine. Unitil
4 requested and received approval for a Targeted Area Buildout (TAB) for a portion of
5 Saco, Maine in Docket No. 2015-00146. The TAB includes an increase to distribution
6 charges for customers that lie within the targeted area. Unitil stated that it intends to use
7 these rates in other parts of the state after the Saco buildout is complete.

8 **Q. Are the MEP rates consistent with the State's Energy Strategy?**

9 A. Yes. A key objective to the Energy Strategy is fuel diversity. Expansion of natural gas
10 infrastructure will allow for more choice for consumers when deciding which fuel to
11 utilize. Natural gas expansion is also mentioned in the NH Energy Strategy. It states that
12 "[t]he high cost per mile of pipeline expansion can prohibit expansion," and that "[i]n
13 recognition of the importance of access to natural gas across New Hampshire, the PUC
14 recently changed the acceptable payback period limit for Liberty Utilities." This change
15 has resulted in a significant increase in new service connections on an annual basis. The
16 proposed MEP rates should have a similar impact on new service connections.

17 **Q. Please summarize the benefits of the MEP rates?**

18 A. The MEP rates are consistent with the New Hampshire Energy Strategy as discussed
19 above. Expansion of natural gas service will give access to Energy Efficiency programs
20 previously unavailable to customers heating with fuel oil or propane. Expansion of
21 natural gas service should result in lower energy costs and lower emissions for residential

1 and commercial customers. The premium to existing rates also ensures that costs
2 associated with expansion of the gas infrastructure are borne by the new customers and
3 not subsidized by the existing customers of EnergyNorth. Finally, by expanding the
4 customer base, fixed costs are spread over more volume, resulting in lower rates in the
5 long term for all of EnergyNorth's customers.

6 For these reasons, EnergyNorth requests approval of the proposed MEP rates.

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

8 **A.** Yes, it does.